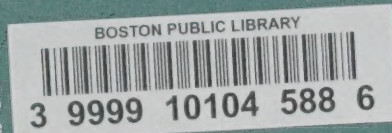


CITY OF BOSTON



Operating Budget Fiscal Year 2004


Capital Plan Fiscal Years 2004 - 08

THOMAS M. MENINO, MAYOR

BOSTON CITY HALL

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**ADOPTED
BUDGET**
Volume I



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City of Boston

Thomas M. Menino, Mayor

Operating Budget Fiscal Year 2004

Capital Plan Fiscal Years 2004-2008

Volume I - Overview of the Budget

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GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Boston
Massachusetts**

For the Fiscal Year Beginning
July 1, 2002

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Presentation to the City of Boston for its annual budget for the fiscal year beginning July 1, 2002.

In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan and as a communication device.

The award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

Presented to

City of Boston

for the year ending

June 30, 1967

July 1, 1967

[Signature]

President

[Signature]

President

The Government Finance Officers Association of the United States and Canada (GFAA) presents an award of Distinguished Budget Presentation to the City of Boston for its budget for the fiscal year beginning July 1, 1967.

In order to receive this award, a government must submit a budget document that meets certain criteria as a point of reference to its financial goals, as a statement of its financial position, and as a statement of its financial future.

This award is given to a government that has submitted a budget document that meets the criteria for Distinguished Budget Presentation, and has also submitted a statement of its financial future.

Table of Contents

Volume I Overview of the Budget

Letter of Transmittal: Thomas M. Menino, Mayor

Executive Summary	1
Summary Budget	5
City Council Orders	33
Revenue Estimates and Analysis	63
Innovations in Education	77
Budget and Performance Goals	89
Financial Management of the City	93
Capital Planning	105
Statutes and Ordinances Governing Boston's Operating and Capital Budgets	119
Boston's People and Economy	129
Budget Organization and Glossary of Terms	137



CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
THOMAS M. MENINO

June 24, 2003

TO THE CITY COUNCIL

Dear Councilors:

I retransmit herewith my Recommended Budget for Fiscal Year 2004, for the City of Boston. The Recommended Operating Budget totaling \$1.81 billion is one percent less than the Fiscal Year 2003 Budget, the first decrease in over a decade. The Fiscal Year 2004 Budget contains an increase of \$54.2 million over the total budget originally submitted in April.

Predicated on guidance received from the chairs of the House and Senate budget committees, my original budget transmission submitted to you in April was based on a twenty percent cut to state aid, the City's second largest source of revenue. Painful decisions were necessary in every department in order to submit a balanced budget.

The Fiscal Year 2004 Budget passed by the legislature this past Friday includes a decrease in state aid less severe than anticipated; yet I remain cautious as we await final action by the Governor. State aid has now been reduced for two consecutive years and the state's fiscal crisis is likely to continue beyond Fiscal Year 2004.

Adhering to my core priorities, this budget restores an additional \$33 million dollars to education and public safety. It provides funding to reinstate a police class cancelled last winter and retains firefighter and education positions slated for elimination.

This budget also restores many positions that directly impact service delivery in front-line operating departments. It continues to reflect decisions made to restructure government and make it more efficient, such as strategically redeploying public safety resources, facilitating the consolidation of functional overlap in departments, implementing new service delivery models and optimizing the utilization of school assets.

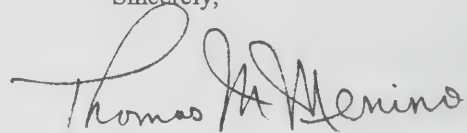
City services must continue to adapt as we work to strike the balance between economic reality and our public responsibility. This budget assumes a responsible allocation of the City's reserves, but we must be mindful that one-time resources are not a long-term solution. We must stay the course we have followed thus far. Our early recognition of the need to prepare for fiscal change over the past few years has mitigated the impacts of the situation we face today.

Controlled hiring coupled with retirement incentives will result in a substantial reduction in the City's workforce by the beginning of the new fiscal year. Prudent management of debt and pension obligations reduces the need for an allocation of scarce resources for fixed costs. Additionally, the consolidation of health plans dramatically minimizes cost increases to both employees and the City.

Despite the challenging economic environment, I am confident that this budget will efficiently and effectively allow Boston to continue to work for its citizens. Lastly, I wish to thank my colleagues on the City Council who have worked hard during this arduous process. The Council's collaborative spirit was critical to the creation of this budget.

The Recommended Budget for Fiscal Year 2004 is soundly balanced within the City's available resources. I respectfully request your favorable action on the Fiscal Year 2004 Operating Budget and the Five Year Capital Plan for FY04 to FY08.

Sincerely,

A handwritten signature in black ink, reading "Thomas M. Menino". The signature is fluid and cursive, with the first name "Thomas" and last name "Menino" clearly legible.

Thomas M. Menino
Mayor of Boston



CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
THOMAS M. MENINO

April 8, 2003

TO THE CITY COUNCIL

Dear Councilors:

I transmit herewith my Recommended Budget for Fiscal Year 2004, for the City of Boston and County of Suffolk. The Recommended Operating Budget totaling \$1.75 billion is \$73 million less than the Fiscal Year 2003 Budget.

State cuts to the City are unprecedented in scope. Making matters worse, the cutbacks in state aid have fallen disproportionately on Boston, despite the City's role as the major economic engine of the Massachusetts economy. With a reduction in state aid of about \$100 million dollars anticipated for Fiscal Year 2004, in addition to the cut of \$53 million for the present fiscal year, service impacts will be felt citywide.

For Fiscal Year 2004, the City faces a dire fiscal challenge. Consequently, this budget reflects very tough decisions and every one of these affects the lives of real people and their families, the people who receive the services and the people who provide the services. I am sensitive to the impact of these decisions, but we have no other choice if Boston is to maintain its fiscal health.

The City has already taken many measures to lower spending and restructure government to adjust to fiscal change. For some time, the City has worked to contract its workforce through controlled hiring, attrition and voluntary reductions. Between January 2002 and January of 2003, the City's workforce is down by 480 full-time equivalents.

To deal with declining revenues, which are driven by the State's control over the City's second largest source of revenue, the City is forced to decrease spending further and restructure government to be more efficient. With personnel costs and health benefits representing 74 percent of the City's operating budget appropriations, reducing employee levels is necessary. The FY04 Recommended Budget reduces the City's workforce by about 1,700 employees, including 450 outside the School Department.

While this budget does not include optimum funding for even the City's core priorities of education and public safety, it strikes a balance between the economic reality and our public responsibility. Striking that balance for Fiscal Year 2004 also requires the use of a responsible allocation of the City's reserves.

Despite the difficult challenges faced during its formulation, the Recommended Budget for Fiscal Year 2004 is soundly balanced within the City's available resources. I look forward to working with you during this process, and I respectfully request your favorable action on the Fiscal Year 2004 Operating Budget and the Five Year Capital Plan for FY04 to FY08.

Sincerely,

Thomas M. Menino
Mayor of Boston

Executive Summary

INTRODUCTION

The FY04 Budget of \$1.81 billion represents a one percent decrease from FY03, the first time the City's budget has decreased in over a decade. The FY04 Budget reflects tough decisions, but is the result of an informed process. The result, after countless hours of hard work, is that the FY04 Budget preserves a foundation of essential municipal services and continues to restructure City government to serve the citizens of Boston in these difficult fiscal times. The FY04 Budget appropriately strikes a balance between the economic reality we face and our public responsibility. Striking that balance for Fiscal Year 2004 requires using a responsible allocation of the City's reserves coupled with reducing spending and restructuring government to be more efficient.

This year's Five Year Capital Plan totals \$1.2 billion and includes \$71.8 million in new FY04 authorizations. Boston's Five Year Capital Plan continues to be an investment program for the City's future. The City's Five Year Capital Plan is consolidated with the Budget to present a complete picture of the City's resources and strategic financial plan.

Change in Resources

The FY04 Budget reflects a decrease of \$18.5 million due mainly to a reduction in state aid. State aid is the second largest source of revenue for the City and therefore plays a critical role in determining city revenues. The State crafted a budget amid disappointing revenue performance with nearly depleted reserves. The City's largest revenue source, property tax, reflects 3.9 percent net growth for FY04.

Other economically sensitive revenue streams show minimal budgetary adjustments from the FY03 Budget. Available revenues provide the basis for planning the FY04 appropriations and fixed costs.

For the first time since FY92, the City budget assumes an appropriation of Budgetary Fund Balance of \$25 million. Also referred to as "free cash," this item is most simply described as the expendable portion of Undesignated Fund Balance, which must be state certified. Free cash is a one-time source of revenue that must be prudently applied over the next few years. Figure 1 illustrates the changes in revenue for the FY04 Budget.

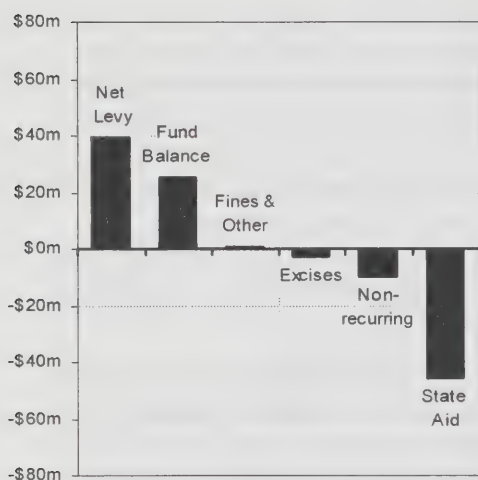
On the expenditure side, the FY04 Budget reflects a 1.4 percent or \$20.9 million decrease for appropriations and a .07 percent or \$2.4 million increase in fixed costs (pensions, debt service, state assessments and Suffolk County sheriff) for a total expenditure decrease of \$18.5 million (Figure 2). Aggressive debt management and continued adherence to a responsible pension funding schedule has kept fixed cost increases manageable.

A detailed discussion of the City's revenues and expenditures can be found in the Summary Budget chapter of this volume.

Boston's Economy

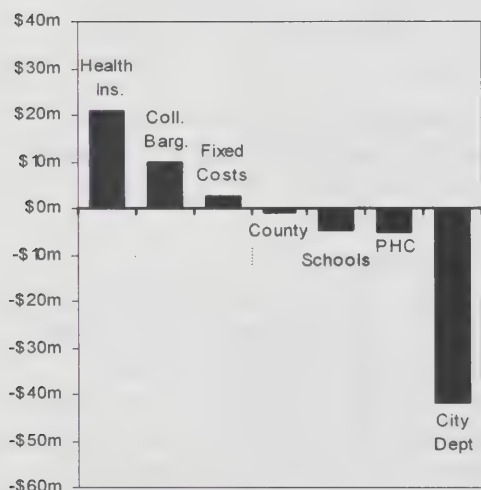
The Boston economy, like the United States economy, is showing some signs of a slow recovery after a recession that began in March 2001 and ended in November 2001. But the uncertainty and economic fallout of terrorism warnings, a fluctuating stock market, corporate accounting scandals, and more recently, the war with Iraq and the subsequent occupation of that nation by U.S. forces together with continued tensions with North Korea, have perpetuated a crisis of confidence that has prevented any solid acceleration in economic growth.

The Boston area economy has held steady based on its strong property values, its diverse industry composition and educated workforce. The City has an unemployment rate that is one-third less than that of the last recession's peak and there is still considerable new construction value being put in place. It is clear that many investors view Boston as a safe bet that will thrive as the nation returns



FY04 Sources of Revenue

Figure 1



FY04 Sources of Expenditure

Figure 2

to growth and prosperity. While many industries in Boston have been exposed to economic weakness, most have adjusted and sustained through the challenge, and are ready to move forward. The once robust travel and tourism industries, which were deeply affected after the

September 11, 2001 attacks and the resulting vacuum in both corporate and leisure travel, have stabilized. Boston's financial services industry has weathered stock-market turmoil with limited layoffs, and Boston's technology sector seems to be improving slightly. Overall, the Boston area's economy still remains well balanced and well positioned in sectors with industry growth potential such as travel and tourism, financial services, technology, and biotech.

The City's long history of balanced budgets, prudent fiscal policies, and a conservatively structured debt position with manageable future borrowing needs continues to serve the City well. In February 2003, the City's bond rating was affirmed by Moody's Investors Service at Aa2, the City's highest bond rating. This affirmation recognizes the City's demonstrated fiscal control and forward-looking budgetary approach, as essential tools that will allow the City to manage through the current economic cycle. Moody's Investors Service increased the City's bond rating from Aa3 to Aa2 in February 2001. Moody's upgrade came one year after Standard & Poor's Rating Service upgraded the City's bond rating from A+ to AA- in January 2000. A bond rating is a statement of credit quality and is analyzed when determining the interest rate that should be paid for a municipality's bonds. A higher bond rating translates into real dollar savings for the City.

The high priority City management places on carefully implementing sound fiscal policies and continuing to exercise strong fiscal discipline ensures that the slowly recovering economy will not affect the City's ability to preserve budgetary balance.

FY04 - Budget Process

Boston integrates goal setting, program budgeting, monthly performance reporting and financial tracking into a cycle of continuous planning and review. As a starting point for the FY04 process, mid-year policy meetings were held to evaluate current year projected results. Two FY03 cuts in state aid after the City adopted its budget, July and January, totaling \$53 million began to set the context of a grim fiscal reality for FY04. Departments were asked to submit budget requests with 10 to 15 percent reductions. Always

weighing the consequences of tough decisions, the budget went through various iterations.

Even though the City had already taken many steps during FY02 and FY03 to adjust to fiscal change, more reductions in departmental spending are necessary in FY04 due to the significant cuts in state aid. Through controlled hiring and attrition, the City's workforce was down 480 full-time equivalents between January 2002 and January 2003.

With personnel costs and health benefits representing 74 percent of the City's operating budget appropriations, reducing employee levels is necessary for FY04. While the FY04 Budget does its best to preserve a foundation of essential municipal services, these reductions will impact the availability, frequency, timeliness and quality of City services. Thoughtful restructuring of government must continue in order to mitigate the impacts on services during these challenging times.

A more detailed discussion can be found in the Summary Budget chapter.

CONTINUING THE MOMENTUM

The FY04 budget development process has been guided by the adverse fiscal realities that the City of Boston now faces. However, the City is poised during this time to identify opportunities for improved efficiencies. By building on the restructuring already started, the City continues the momentum of positive change. It is important to remember that restructuring government is an iterative process that overlaps budget cycles. The table on the right provides an outline of decisions included in the FY04 Budget that will better serve the citizens of Boston in these difficult fiscal times.

Additional information can be found in the Summary Budget and the FY04 Budget and Performance Goals chapters.

Budget Document Structure

The Operating Budget for FY04 and Five Year Capital Plan for FY04-08 is presented in three volumes.

Volume I is an overview of the City's financial position and policy direction.

FY04 Decisions: Continuing the Momentum

Create Streets, Transportation & Sanitation

New cabinet structure to facilitate the consolidation of functional overlap between Public Works and Transportation Depts.

Regionalize Boston Centers for Youth & Families

New clustering site model to promote a more efficient use of resources and ensure quality service according to neighborhood needs

Strategically Deploy Public Safety Resources

Uniformed police personnel reassigned to neighborhoods to preserve public safety
Fire personnel reassigned to suppression to minimize impact of reductions on response time and quality of fire suppression service

Utilize School Assets Efficiently

5 schools closed to focus resources on fewer sites and leverage 3 new state-of-the-art facilities opening in September 2003

Offer Voluntary Retirement Incentive

Encourage eligible employees to retire by 6/30/03 and thereby reduce layoffs for FY04

Increase Competition for School Bus

Transportation Contract New contract structure encourages more bidders & avoids dramatic increase in costs from FY03 to FY04

Maximize BPS Custodial Services

Use of part-time custodians to augment service in some instances

Upgrade antiquated lever voting machines

Electronic scanning machines will improve the election process

Decrease Plan Options to Lower High Cost of Health Insurance

Successful negotiation results in 11% premium increase, down from proposed 17% - 20% increase

Consolidate Public Health Program

Locations Methadone and homeless programs relocated to significantly lower overhead

Reduce Central Library Hours of Service

Impact of reductions on neighborhood branches minimized by shortening hours of operations for services at Copley Library

Continue Integration of Code Enforcement into Inspectional Services

Management changes implemented to maximize efficiencies and effectiveness of integrated workforce

Seek to Implement Lower Cost Alternative for Towing Operations

Work with legislative body to increase towing fee previously restricted by state law.

Implement Energy Conservation Plan

Volumes II and III, which are organized by cabinet, present the budget detail for each department's operating budget and capital authorizations. Refer to the chapter on Budget Organization and Glossary for an illustration of the City's organizational chart.

The City's Budget is built at the program level for each department, which is the basis for budget planning. However, line item detail is only provided in this budget document at the department level. Program line item detail is available upon request.

In addition to line item expenditures, Volumes II and III provide a mission statement, key objectives, as well as past and promised performance levels for each department. For those departments with capital projects, a project profile is provided for every capital project, which includes authorization information as well as planned spending levels.

Definitions of the terms used throughout the budget document are presented in the glossary, which can be found in the chapter titled Budget Organization and Glossary.

Technical Note

The City of Boston's combined FY04 Budget and FY04-FY08 Capital Plan was published using Microsoft Word 2000. Graphics were generated using Microsoft Excel 2000. Hyperion Pillar 5.1, and Microsoft Access 97 were used for data management and analysis.

All production was done within the Office of Budget Management. Document production assistance was provided by the City of Boston Graphic Arts Department and the Boston Redevelopment Authority. Technical development and support was provided by MicroData Group, Inc.



Summary Budget

FY04-FY05

Summary Budget

OVERVIEW

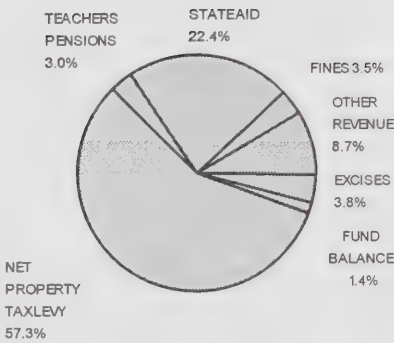
The FY04 Budget of \$1.777 billion in recurring revenue represents a \$9.2 million decrease from the FY03 Budget supported by recurring revenues. Included in the total FY04 Budget is \$4.9 million in non-recurring revenue and \$25.0 million in revenue from budgetary fund balance. In total, FY04 Budgeted revenues amount to \$1.807 billion, an increase of \$5.8 million or .3% from FY03.

This Summary Budget section lays out the FY04 Budget and discusses trends in each category of the summary budget table. A detailed look at personnel trends as well as a review of major externally funded services is also presented.

The decrease in FY04 Budget recurring revenues is primarily the result of a \$45.8 million projected decline in state aid. The FY04 Budget estimate of state aid is based on the House and Senate Ways & Means Conference Committee Budget sent to the Governor June 20th of this year. The estimate is conservative given the likelihood of Gubernatorial vetoes and the difficulty in overriding those vetoes in the Legislature. There is also continued downside risk that state revenues may not meet estimates through the fiscal year, requiring further reductions to local aid accounts as the year progresses.

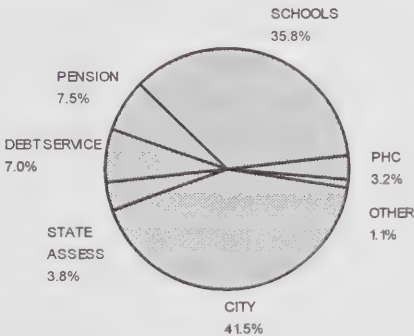
The state finds itself in the difficult position of being unwilling to raise taxes again, and having spent nearly all of its reserves amidst flat revenue growth and increasing costs in a stagnant economy. As state programs have already been substantially reduced, local aid, at roughly one quarter of the state budget is continuously a candidate for reductions.

To counteract some of these anticipated cuts and provide for future revenue growth and diversification of the revenue base, the City has taken steps to increase revenue in several key areas. See the *Financial Management* chapter of this volume for more detail.



FY04 Estimated Revenue

Figure 1



FY04 Estimated Expenditures

Figure 2

CITY OF BOSTON BUDGET SUMMARY

(Dollars in Millions)

	FY01 Actual	FY02 Actual	FY03 Budget	FY04 Budget
REVENUES				
Property Tax Levy	917.92	972.65	1,035.27	1,086.15
Overlay Reserve	(43.91)	(46.32)	(39.82)	(51.72)
Excises	72.66	80.65	72.01	69.26
Fines	59.77	60.66	61.50	63.48
Interest on Investments	26.08	14.80	10.75	6.20
Payments In Lieu of Taxes	25.95	19.62	20.36	22.18
Urban Redevelopment Chapter 121A	46.88	48.37	44.76	46.43
Misc. Department Revenue	45.08	54.14	38.37	34.54
Licenses and Permits	37.81	29.63	25.22	22.75
Penalties & Interest	8.03	8.07	8.35	8.00
Available Funds	8.36	4.57	11.85	11.87
State Aid	483.78	496.12	449.89	404.05
Teachers Pension Reimbursement	41.39	45.34	47.60	53.68
Total Recurring Revenue	1,729.78	1,788.30	1,786.11	1,776.87
Non-Recurring Revenue	0.00	0.00	14.88	4.88
Budgetary Fund Balance	0.00	0.00	0.00	25.00
Total Revenues	1,729.78	1,788.30	1,800.99	1,806.75
EXPENDITURES				
City Departments	726.84	754.60	770.95	750.30
Public Health Commission	62.14	64.01	63.90	58.58
School Department	611.93	639.71	650.62	646.10
Reserve for Collective Bargaining	12.50	6.20	7.41	17.00
Total Appropriations	1,413.40	1,464.52	1,492.87	1,471.99
Pensions	127.48	129.75	134.43	135.11
Debt Service	106.18	115.56	124.90	126.57
State Assessments	66.79	67.77	68.50	69.53
Suffolk County Sheriff	6.03	4.54	4.54	3.55
Reserve	1.28	0.00	0.00	0.00
Total Fixed Costs	307.75	317.61	332.36	334.76
Total Expenditures	1,721.16	1,782.13	1,825.23	1,806.75
Surplus (Deficit)	8.63	6.17	(24.24)*	0.00

Numbers may not add due to rounding

*Note: The City is required to provide for a prior year's deficit in the following year's Tax Rate Budget. The City expects to close FY03 in balance by reduction of expenditures, the use of Fund Balance or other reserves, or by some combination of each of these measures.

This difficult revenue situation provides the basis for planning FY04 appropriations and fixed costs to maintain a balanced budget. Selected FY04 Budgeted revenues compare with FY03 Budgeted revenues as follows: the net property tax levy increases \$39.0 million or 3.9%; excises decrease \$2.8 million or 3.8%; fines increase \$2.0 million or 3.2%; interest on investments decreases by \$4.6 million or 42.3%; payments-in-lieu-of-taxes increase \$1.8 million or 8.9%; miscellaneous department revenues decrease by \$3.8 million or 10.0%; licenses and permits decrease by \$2.5 million or 9.8%; penalties and interest decrease \$350,000 or 4.2%; and state aid decreases \$45.8 million or 10.2%.

On the expenditure side of the budget, total departmental appropriations decrease by \$20.9 million or 1.4% and fixed costs increase by \$2.4 million or 0.7%. Selected FY04 budgeted appropriations compare with FY03 budgeted appropriations as follows: City departments decrease \$20.6 million or 2.7%, the Boston Public Health Commission decreases by \$5.3 million or 8.3%, and the School Department decreases \$4.5 million or .7%. FY04 budgeted fixed costs compare with FY03 budgeted fixed costs as follows: pensions increase \$700,000 or 0.5%, debt service increases \$1.7 million or 1.3%, state assessments increase \$1 million or 1.5% and Suffolk County Sheriff decreases \$1.0 million or 21.7%. Please note that the "Other" category on the FY04 Estimated Expenditures pie chart (Figure 2.) is made up of the Collective Bargaining Reserve and the Suffolk County Sheriff.

It should be noted also that the appropriation for the Suffolk County Sheriff, which is mandated by the State, is included in the Fixed Costs section of the Budget Summary. In previous years funding for the Sheriff was shown in the Appropriations section as part of a County appropriation. Because funding for the Suffolk County Sheriff is a mandated cost it is more appropriate to categorize it as a fixed cost. The appropriation for the City's County Pensions and Annuities expenses is included in the City Departments appropriation.

REVENUE

Consistent revenue growth has allowed the City to record 17 consecutive operating budget surpluses through FY02. Mid-year reductions of state aid in

FY03 will put the City in a position to show no substantial surplus by fiscal year close. (Figure 3.)

The FY04 Budget is balanced on the following revenue projections.

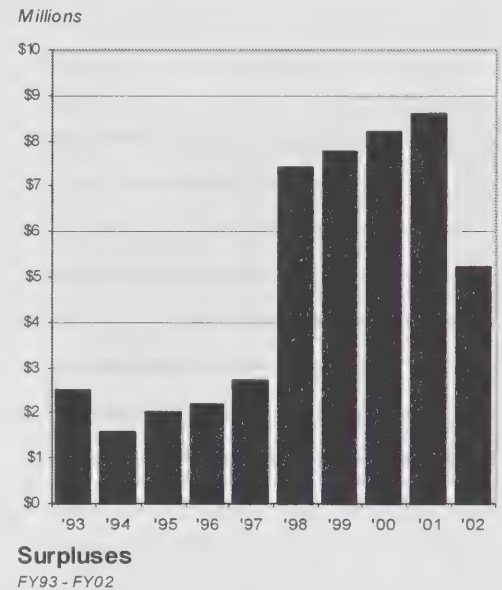


Figure 3

Property Tax Levy

A detailed discussion of the property tax levy is provided in the *Revenue Estimates and Analysis* chapter of this volume. Below is a brief summary.

The property tax levy has been the City's most dependable source of revenue growth during the past nineteen years. The increases have been steady and consistent from FY85 to FY03, ranging from \$28 million to \$63 million. However, because of the increasing property tax levy base, the \$29.9 million increase in FY85 represented an 8.9% increase, while the \$62.9 million increase in FY03 represented only 6.4% growth. Property tax levy growth is fundamental to the financial health of the City since it provides over half of all City revenue.

Proposition 2 1/2 has been the overwhelming factor affecting the City's property tax levy since its adoption in 1980. Proposition 2 1/2 limits the property tax levy in a city or town to no more than 2.5% of the total fair cash value of all taxable real and personal property. It also limits the total property tax levy to no more than a 2.5% increase over the prior year's total levy with certain provisions for taxable new value. Finally,

Proposition 2 1/2 provides for local overrides of the levy limit and a local option to exclude certain debt from the limit. The City of Boston, however, has not voted to either override the levy limitations or to exclude any debt from the limit.

In each year since FY85, the City has increased its levy by the allowable 2.5%. During these same years, the levy has also been positively impacted by taxable new value. Taxable new value is expected to be approximately \$25 million in FY04. Revenue growth from taxable new value has exceeded revenue growth from the 2.5% increase in 13 of the last twenty years (Figure 4). For the four years inclusive between FY00 and FY03, taxable new value revenue growth achieved a new record each year. FY03 taxable new value increased in large part due to the efforts of the Assessing Department to update personal property data. This increase cannot be duplicated in future years. The combined effect of the allowable 2.5% increase and the taxable new value is an average annual gross levy increase from FY98 through FY03 of \$47.6 million or 5.5%, and a projected increase in FY04 of \$50.9 million or 4.9%. The gross property tax levy totaled \$917.9 million in FY01 and \$972.6 million in FY02. The gross levy crested \$1 billion in FY03 to \$1.035.3 million and is estimated to reach \$1,086.2 million in FY04.

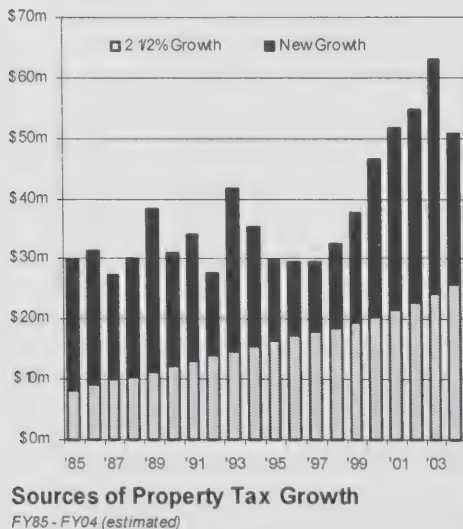


Figure 4

Property values in Boston have been rising steadily. During FY01, the City conducted the seventh parcel-specific revaluation that

established values as of January 1, 2000 at \$50.5 billion, an increase of 26% over the prior year's market indexed valuation of \$39.9 billion. The January 2001 market indexed valuation of \$54.2 billion shows still increasing values but at a decreasing annual rate of 7.3%. The January 2002 market indexed valuation increased to \$57.5 billion or up 6.2%. The City is due to complete its eighth parcel-specific revaluation in FY04 (Figure 5.).

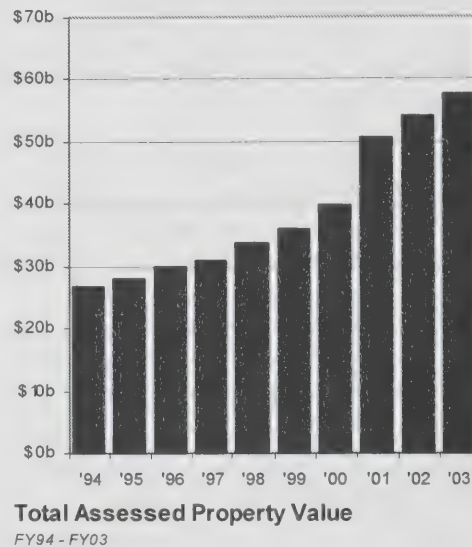


Figure 5

Excises

The Commonwealth imposes an excise on the registration of motor vehicles, the proceeds of which are received by the municipality of residence of the registered owner of each vehicle. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. Valuations are determined by a statutory depreciation schedule based on the manufacturer's list price and the year of manufacture.

As employment, wages and consumer confidence increased and financing costs decreased in 2000 and 2001, more people returned to the market for new cars producing back-to-back years of record auto sales. Strong sales continued during the recession due to manufacturers incentives and cash-out refinancing of home mortgages giving lump sums of cash to homeowners. Having possibly reached the peak of automobile sales in 2001, the City expects the market to soften or plateau.

eroding revenues through the depreciation schedule mentioned above. Motor vehicle excise revenue totaled \$41.8 million in FY01 and \$42.8 million in FY02. The City expects motor vehicle excise revenue to exceed the midyear budget estimate of \$38.0 million in FY03 and to fall to \$38.0 million in FY04.

The local room occupancy excise amounts to 4% of the total amount of rent for each hotel or motel room occupied (in addition to the state excise). Boston's occupancy and average daily room rates are usually among the highest in the nation, but the most recent data on tourism shows that this market was strongly affected by the events of September 11, 2001 and the national recession. Business and tourism travel in cities across the nation was reduced and Boston was not an exception. Consequently, receipts have declined as occupancy has waned and room rates have plunged. Room occupancy excise revenue totaled \$15 million in FY01, after retaining \$10.7 million in the Convention Center Fund and \$21.0 million in FY02. The City's room occupancy excise tax receipts are expected to fall slightly short of the midyear budget estimate of \$20 million in FY03, and are projected to stabilize at \$19 million in FY04.

Room occupancy excise revenue from the significant number of new hotel rooms planned, already in construction, or recently constructed is earmarked to the Convention Center Fund to pay a significant portion of the City's debt for the new Boston Convention and Exhibition Center. Therefore, future growth in room occupancy excise in the general fund depends strictly upon increases in room rates and room occupancy in the 1997 base of hotel rooms.

The excise on the sale of jet fuel is 5% of the sales price, but not less than five cents per gallon. One reason that the jet fuel excise has tended to increase slowly is that with jet fuel selling consistently below \$1.00 per gallon, the five cents per gallon minimum tax has generally been the operative rate. Jet fuel excise tax collections were also severely impacted by the events of September 11 and the national recession, as travel and cargo shipping have slowed sharply. The City expects jet fuel excise collections to continue to stagnate until the economy strengthens and travel returns. Jet-fuel excise revenue in FY01 totaled \$15.3

million and \$16.2 million in FY02. The City expects this revenue source to come in at the midyear projection of \$13.6 million in FY03 and projects a decline to \$12.0 million in FY04. (Figure 6.)

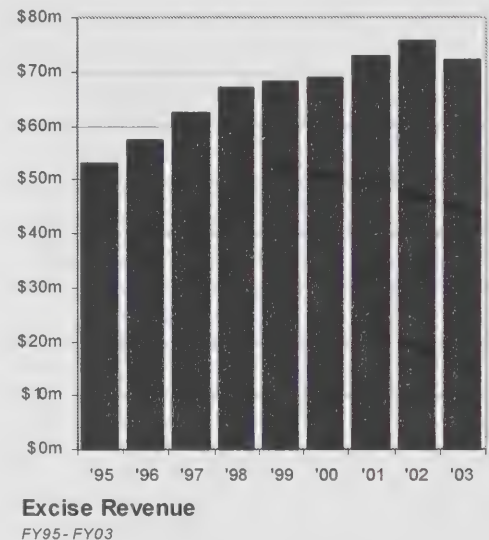


Figure 6

Fines

Over the last three years, the City has issued an average of approximately 1.74 million parking tickets per year and has maintained a high rate of collection on its tickets for several years, collecting approximately 84% of tickets in the first six-months after issuance. The major factors contributing to the City's successful collection rate include non-renewal of violator's registrations and licenses by the Registry of Motor Vehicles until penalties are paid, booting and towing of vehicles, increased ability to get fine payments from rental agencies, and systematic collection of fines for company cars and leased vehicles. The City collected parking fine revenue of \$55.5 million in FY01 and \$56.5 million in FY02. Parking fine revenue is expected to fall short of the mid-year budget estimate of \$57.7 million in FY03. The FY04 projection of \$59.5 million is based upon decreased issuance due to decreased staff in parking enforcement operations offsetting an increase in the fine rate for violations that require towing by the Transportation Department.

Interest On Investments

In general, the City's level of investment income is a function of the level of prevailing short-term interest rates and daily cash balances. Investment income peaked at \$26.1 million in FY01 driven by rising cash balances and interest rates. Interest rates have now fallen to 41-year lows (see chart of Federal Funds rate decreases in the *Revenue Estimates & Analysis* chapter of this volume), and although cash balances have remained good, earnings have suffered as a result. As reductions in local aid filter through City accounts, cash balances will decline and investment income will be further reduced. Investment income totaled \$14.8 million in FY02, and is expected to fall short of the midyear budget estimate of \$10.8 million in FY03. As the Federal Reserve is likely to hold interest rates steady at least through the end of 2003 while balancing economic recovery and inflation, the City expects lower cash balances in tandem, therefore the City projects interest income will fall to \$6.2 million in FY04 as a result – less than one quarter of its FY01 peak and the lowest since FY83.

Payments In Lieu of Taxes

Payments in lieu of taxes (PILOT's) are payments made by tax-exempt institutions located in the City, including hospitals, universities and cultural institutions, as a voluntary contribution for the municipal services that the City provides to them such as police and fire protection and snow removal. The Massachusetts Port Authority will provide almost half of the PILOT revenue the City expects in FY04. Growth in PILOT's comes from new PILOT agreements, contract escalations that adjust the payments for inflation, or re-negotiation of a current contract. Recently, several previously negotiated contract escalations have taken place in FY02. Payments in lieu of taxes totaled \$25.9 million in FY01 and \$19.6 million in FY02. Boston University made payment on a past year's agreement in FY01 thus increasing revenue more than would be the case in that year and Massport reduced its payment in FY02 after the September 11 attacks, reducing revenue substantially in that year. The City expects this revenue source to exceed the midyear budget estimate of \$20.4 million for FY03 and has projected \$22.2 million

for FY04 inclusive of new agreements expected to result from negotiations underway.

Urban Redevelopment Chapter 121A

The Chapter 121A legislation allows local governments to suspend the imposition of property taxes at their normal levels in order to encourage redevelopment. In recent years, the City used this mechanism to encourage development of the Seaport Hotel and the World Trade Center office buildings. Chapter 121A revenues are based on two separate sections of the law as described below.

The Urban Redevelopment Corporation excise is a municipal excise in-lieu-of-tax for which the Commonwealth acts as the collector and distributor. In most cases, the formula for the 121A, Section 10 excise in-lieu-of-tax is \$10 per \$1,000 of the current fair cash value plus 5% of current gross income. In FY01 and FY02, the City received Chapter 121A, Section 10 distributions of \$32.8 million and \$31.7 million. In FY03 and FY04, Chapter 121A Section 10 revenues are budgeted at \$31.0 million. In addition to the Section 10 payments collected by the Commonwealth described above, most 121A corporations have individual Section 6A agreements with the City that result in additional payments made directly to the City. These Section 6A agreements are complex, with actual amounts owed dependent on a formula that varies widely among the 121As. The City collected Section 6A payments of \$14.0 million in FY01 and \$16.7 million in FY02. The City expects FY03 Section 6A collections to exceed the midyear budget estimate of \$13.8 million and has a budget of \$13.9 million for FY04.

Miscellaneous Department Revenue

This category contains twenty-one large accounts and many more small accounts. The largest revenue source in this revenue category is municipal medicaid reimbursements for school health services. This federal reimbursement, administered by the state, began in FY94. The City received \$18.9 million in FY01 as payments caught up after a backlog. Collections totaled \$16.6 million in FY02. Municipal medicaid reimbursement is expected to fall short of the midyear budget estimate of \$14.0 million in FY03, and is budgeted at \$12.0 million in FY04. There are two other accounts in this revenue category

that are projected to exceed \$2.5 million in FY04. Fire service fees are projected at \$3.0 million and street and sidewalk occupancy fees are projected at \$2.5 million.

Licenses and Permits

The level of economic activity largely determines the amount of licensing and permitting done by City agencies. This category is dominated by building permit revenue, from which the City received \$27.2 million and \$19.1 million in FY01 and FY02 respectively. Building permit revenue should exceed the midyear budget estimate of \$15.0 million in FY03 due to strong residential construction and continuing commercial projects. The City expects to receive \$12.5 million in building permit revenue in FY04. This figure incorporates a decline in permitting activity coupled with an increase in permitting fees enacted in FY03.

The next highest license and permit revenue is the cable television license fee from which the City received \$3.4 million in FY01 and \$3.2 million in FY02. The City has a budget of \$2.9 million for FY03 and FY04.

Alcoholic beverage licenses are the only other revenue source in this category that regularly exceeds \$2 million in annual revenue. Alcoholic beverage licenses are budgeted at \$2.4 million in both FY03 and FY04. These budgets follow actual revenue of \$2.3 million in both FY01 and FY02.

Penalties and Interest

Taxpayers are assessed both a penalty and interest for late payments of property tax bills and motor vehicle excise bills. The recent trend has been down for these revenues as the City excels in collection of receivables. The City collected \$8.0 million and \$8.1 million in such penalties and interest in FY01 and FY02 respectively. Actual penalty and interest collections for FY03 will reach the current midyear budget estimate of \$8.4 million. The City expects to collect \$8.0 million in penalty and interest revenue in FY04.

Available Funds

Available funds are linked to a separate category of expenditure appropriation, that is, appropriations that are supported by immediately available fund transfers. Most of the City's general

fund budget is raised and appropriated from the tax levy, which means it is supported by the revenues that are estimated to come in during the course of the fiscal year. This includes the property tax levy, excises, state aid and the various other categories of revenues described above. The only two significant available funds that the City budgets each year are parking meter revenues to support the Transportation Department, and cemetery trust monies which are used to support the City's maintenance of its public cemeteries. The City transferred a total of \$8.4 million and \$4.6 million from these two sources combined in both FY01 and FY02 respectively. The City expects to transfer \$10.0 million from the Parking Meter Fund to the General Fund in both FY03 and FY04. The City also plans to transfer \$1.9 million from the Cemetery Trust Fund to the General Fund in FY03 and FY04. These monies were available at the beginning of FY03 and will also be available at the beginning of FY04. Both of these special funds have fees collected during the course of the year. By transferring out less than what is collected, the City has built up these balances. Trust fund balances also benefit from the opportunity to invest in securities offering a higher return than short-term fixed-income investments (see *Financial Management* section of Volume I for detail).

State Aid

A detailed discussion of state aid is provided in the Revenue Estimates and Analysis chapter of this volume. Below is a brief summary.

In FY03, the Commonwealth's annual expenditure for direct local aid statewide was substantially reduced twice. The first statewide reduction of a net \$32 million dollars occurred in late July 2002, one full month into the fiscal year, and mostly as a result of vetoes by the Governor. The second reduction of \$114 million statewide occurred in January 2003, as a result of the Legislature granting the new Governor temporary power to make unilateral reductions to local aid accounts.

In the decade prior to FY03, the Commonwealth had been successful in balancing its budget. This had given the Commonwealth the capacity to support an adequate and diversified local revenue base for municipalities. Recently, due to the national economic recession, the corresponding drop in state tax revenues left the state in need of

making program reductions, drawing on reserves, increasing taxes and freezing tax cuts already enacted, and reducing local aid. Municipalities are now primarily reliant on the property tax not only for revenue growth, but also to offset state aid reductions.

In the Governor's budget released in January 2003, local aid would be changed by eliminating additional assistance, consolidating education grants and other school funding into Chapter 70 education aid, increasing payments for state-owned land, and instituting a one-year "Transitional Mitigation Aid" account to lessen the immediate impact of these changes. Overall, Local Aid would be reduced statewide by at least another \$232 million and an estimated \$65 million less to Boston alone. The City has chosen to budget based on the House and Senate Ways and Means Conference Committee's estimate of funds available for local aid and has reduced most major accounts by 6.0% from FY03 final state aid to Boston and outright eliminated other accounts. The resulting figures leave the City with \$45.8 million less in aid than FY03, after a \$53 million reduction in that year.

The primary forms of local aid distributions from the state to municipal general revenues are Chapter 70 education aid, additional assistance and lottery. The amount of these funds to be distributed each year to an individual community is described on the "cherry sheet", a listing of a city or town's local aid that is printed on cherry-colored paper. Also listed on the cherry sheet is other relatively smaller Commonwealth programs such as library aid, school construction and transportation and other reimbursements, and highway funds.

Beginning in 1993 with the passage of the FY94 state budget, the Commonwealth embarked upon a multi-year commitment to increase and equalize funding for local education in its local aid distributions. This aid comes from the Commonwealth as Chapter 70 education aid.

The expected state budget for FY04 reduces funds for education aid by 6.3% from FY03. The City received Chapter 70 education aid totaling \$197.5 million in FY01, \$205.6 million in FY02 and FY03. The City expects to receive \$200.5 million in FY04. FY00 was the last year of the statutorily

established funding schedule for education reform. There has yet to be established a post-FY00 funding schedule. A vital component in the City's delivery of quality public education in the near-term is strong financial support from the Commonwealth.

The current education aid is delivered in tandem with state-mandated costs for charter schools. Charter schools are publicly funded schools administered independently from local school committee and teacher union rules and regulations whose charters are granted by the State Board of Education. There are two kinds of charter schools, the Commonwealth charter school and the Horace Mann charter school. The former is a school outside the local public school system and the latter is part or all of a school in the public school system. In addition to the Board of Education, the local school committee and local bargaining agent must approve Horace Mann charter schools. In addition, Horace Mann charter schools budgets remain part of the public schools budget.

There are currently fifteen Commonwealth charter schools available to Boston residents and two Horace Mann charter schools operating in Boston. There were approximately 3,562 Boston resident students attending these charter schools in FY03 and the City expects that number to grow to approximately 4,288 in FY04.

Before FY99, all charter school tuition was drawn directly from the City's Chapter 70 aid. This draw on the City's education aid totaled \$10.9 million in FY98. Under recent amendments to the charter school law, the Commonwealth, subject to appropriation, will pay to the City, as reimbursement for Chapter 70 aid reductions, 100% of tuition for new charter school students the first year, followed by 60% of tuition and tuition increases the second year, 40% of tuition and tuition increases the third year and 0% of tuition and tuition increases the fourth year. The net impact of the charter schools in FY02 was \$18.3 million after an \$8.3 million reimbursement from the Commonwealth. In FY03, the Commonwealth failed to appropriate funding for the charter school reimbursement, therefore the City has budgeted the full tuition cost of \$35.9 million as the expenditure impact of charter schools in FY03.

The Governor's FY04 Budget again fails to fund Charter School tuition reimbursement and the House and Senate Ways and Means Conference Committee Budget includes some funding for the reimbursement but the City has chosen not to budget these funds fearing they will be vetoed and an override of that veto not sustained. Therefore the City estimates the full tuition cost of \$42.1 million to be the expenditure impact in FY04.

Lottery aid for the City, as for most municipalities, has grown steadily the last few years as a result of a state decision to phase-out the lottery cap and return all lottery profits to the cities and towns. The City's lottery aid was \$63.1 million in FY00, \$71.0 million in FY01 and \$63.5 million in FY02. Lottery aid was level funded in the state's FY03 budget and then later reduced mid-year as part of the new governor's budget reductions. The City expects that FY03 lottery aid will be \$57.6 million after the recent reduction by the Governor and that any earnings over that amount will be diverted to the state. The City expects to receive 6.2% less in lottery aid in FY04 as the state continues to reduce local aid.

Under normal circumstances, the lottery formula is not favorable for the City. The City receives a smaller percentage share of lottery aid than its share of the state population, and dramatically less than the share of lottery proceeds derived from sales in Boston. Nevertheless, lottery aid has been an important source of revenue growth, aiding the City's efforts to sustain adequate municipal services. Beginning in FY01, growth in the City's lottery distribution reflected only profit growth in the lottery and not the removal of the state cap on lottery aid that had been in effect the five years prior to FY01. Now that lottery aid is in effect capped by the state again, it may take several years before this important source of local revenue is restored.

Additional Assistance has been level funded since FY94, with most local aid increases coming through Chapter 70 education aid instead. Its purpose and usefulness came into question during the FY03 state budget process when the governor vetoed \$31 million from the statewide appropriation and the legislature failed to override that veto. Subsequently, the new governor, using his temporary local aid reduction powers, reduced additional assistance yet again in January 2002 by

\$73 million. As Boston receives over 40% of the statewide distribution of additional assistance, these reductions, as a proportion of all local aid reductions, fell disproportionately on the City.

The City received \$206.6 million in additional assistance in FY02 and adjusted additional assistance of \$175.1 million in FY03. The City expects additional assistance to be reduced by 6.2% to \$164.2 million in FY04. Additional assistance has been important to Boston in supporting schools, public safety, and other basic city services. Its continued reduction seriously risks the City's ability to provide those services to residents and visitors alike.

Teachers' Pension Reimbursement

Boston's cherry sheet includes an item unique to the City, the teachers' pension reimbursement for pension charges to the City. The pensions paid to retired teachers in all other cities and towns in Massachusetts come directly from the Commonwealth via the State-Teachers Retirement System. In a singular arrangement mandated by general law, pensions paid to retired Boston teachers are paid by the State-Boston Retirement System, which charges the City of Boston for this cost as part of its annual pension funding. The City is then reimbursed by the Commonwealth through the cherry sheet. In short, the Boston teachers' pension payroll is administered locally, but, as with all other teachers' pensions in Massachusetts, is the financial responsibility of the Commonwealth. The teachers' pension reimbursement totaled \$41.4 million in FY01, \$45.3 million in FY02, is budgeted to be \$47.6 million in FY03. The teachers pension reimbursement is estimated at \$53.7 million in FY04.

Non-recurring Revenue

Included in the FY04 Budget is \$4.9 million in non-recurring revenue to be transferred from the surplus property disposition fund, the bulk of which, \$3 million, consists of funds directed to affordable housing programs. In maintaining its policy of not supporting recurring operating costs with non-recurring revenue, the City is limiting the remainder of this transfer to an amount not greater than \$1.0 million for the Risk Retention Reserve plus \$876,000 for costs associated with an after school program initiative. (see *Financial*

Management section of Volume I for more detail on this revenue source.)

Budgetary Fund Balance

Fund Balance can be appropriated for use during the fiscal year. Fund Balance, or Budgetary Fund Balance, is more commonly referred to as “Free Cash” when used this way. This item is most simply described as the portion of available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending. The law governing the calculation and availability of budgetary fund balance for cities and towns is Chapter 59, section 23 of Massachusetts General Law, and is administered by the Massachusetts Department of Revenue. The FY04 Budget assumes the use of a \$25.0 million appropriation from the fund balance of the general fund (See *Financial Management* section of Volume I for more detail on this revenue source.).

EXPENDITURES

Expenditures are broken down into two primary groups: appropriations directly related to departmental services and fixed and mandated costs. FY04 appropriations are subdivided further as follows:

City Departments, which includes all operating department appropriations, a risk retention reserve and a set-aside for tax title and annual audit expenses;

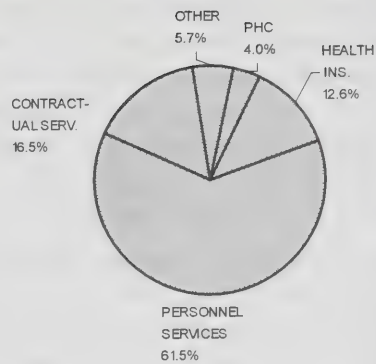
Boston Public Health Commission, the City appropriation for the quasi-independent authority and successor to the Department of Health and Hospitals;

School Department, the City appropriation for the Boston Public Schools (BPS).

Reserve for Collective Bargaining, an appropriation for outstanding labor agreements.

Appropriations are also presented by expenditure category across the four subgroups. (Figure 7)

Personnel Services include salaries, overtime, medicare, unemployment compensation and workers' compensation for employees in City departments and BPS. Health Insurance provides coverage for City and BPS employees. The



FY04 Expenditures by Category

Figure 7

Contractual Services category includes expenditures for communications, repairs and service of buildings, equipment and vehicles, transportation, trash collection and disposal, as well as outside legal, advertising and printing expenses. PHC is the City's appropriation to the Public Health Commission as noted above. Included in the Other category are supplies & materials such as gasoline, uniform allowances, office supplies, Workers' Comp medical expenses, medical indemnification in the Fire and Police Departments, legal liabilities and aid to veterans. Also included in Other are appropriations for equipment, vehicles, tax title and the City's outside audit.

City Departments

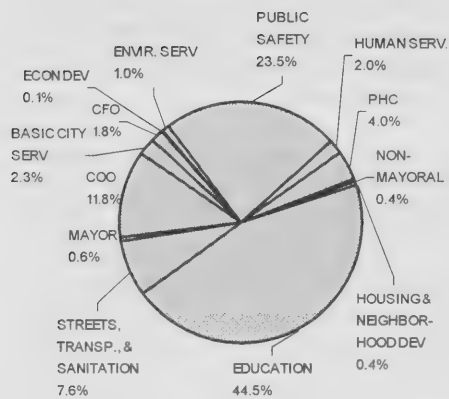
The combined appropriations for City Departments as shown in the FY04 Summary Budget have decreased by 2.7% from the FY03 appropriations. Over 72% of this category covers four appropriations: Police, Fire, Public Works and Health Benefits.

These appropriations also can be divided by cabinet, to better reflect the overall policy priorities and trends by service area. (Figure 8.)

Some of the highlights of FY03/FY04 changes by cabinet are as follows:

Mayor's Office

The cabinet will see a decrease of 12.3%. All of the departments in this cabinet will operate with less



FY04 Expenditures by Cabinet

Figure 8

funding in FY04. The operating budget appropriation shown for the Office of New Bostonians (ONB) covers the salary of the director and is being level funded in FY04. The Baxter Trust covers the major expenses of ONB. Those expenses will also be reduced slightly in FY04. The Mayor remains committed to helping new immigrants become proficient in the English language in order to use the skills that they already have to enter the City's job market. Within the confines of a reduced appropriation, the Mayor's Office will coordinate the organizational and operational changes that must occur over the next year or two in order to respond to the challenge imposed by the reduction in State revenues.

Chief Operating Officer

Excluding health insurance, this cabinet will see a net decrease of 11.2% in its FY04 appropriation. All but one of the departments in the COO Cabinet will see decreases. The decreases in both funding and staffing in two departments within this cabinet are worth noting as they provide direct service to the public. The Library Department will reduce the amount spent on books and will change the schedules for certain specialty departments at Copley Square. Some of the reductions in the Library operating budget will be offset by a more efficient use of external funding. Funding for the Library also assumes that the historical appropriation requirements of the State in order to be eligible for State funding will be waived. A reduced level of staffing in the Registry Division of

Births, Deaths and Marriages, has forced the closing of the office to the public on Wednesdays.

The Health Benefits appropriation will increase by 20% over the FY03 appropriation, requiring an additional \$21 million. The Health Benefits appropriation includes the cost of dental and vision coverage for employees who are eligible for coverage through collective bargaining agreements or executive order. The FY04 appropriation reflects the City's decision to drop two of the City's HMO plans. The consolidation will keep the percentage increase in HMO premium rates at a more affordable level. If the City had not made this change the additional amount needed would have been approximately \$29 million – an \$8 million difference.

Chief Financial Officer

After excluding tax title funding from the FY03 appropriation, the net percentage decrease in this cabinet is 2.8%. There has been one organizational change in the cabinet that will consolidate two departments, reducing administration expenses as well as providing more efficient service. The Taxpayer Referral & Assistance Center (TRAC) Department will become a program of the Assessing Department. The Finance Cabinet also includes appropriations for Medicare Payments, Pensions & Annuities and Executions of Courts.

Public Safety

The 4% decrease in this cabinet is the result of some difficult decisions made by the Mayor and the Public Safety Commissioners. In both the Fire Department and the Police Department, a reallocation of resources will focus on maintaining levels of field service that will continue to protect both residents of Boston and those who come to Boston to work or visit.

The FY04 budget reduction of approximately \$4 million, or 2.9%, in the Fire Department will result in changes in the department's organizational structure and its operations. A review of all internal and administrative functions will allow reductions in areas that will minimize the impact on the timeliness and quality of the delivery of field services. Staffing reductions will be made in specialized units such as the Marine Unit. In addition, two fire districts will be eliminated and their functions reassigned to remaining districts.

Constraints on non-contractual overtime may result in temporary closings or “brown-outs” of field suppression units.

The Police Department's appropriation will decrease by approximately \$10 million or 4.6%. The FY04 recommended budget reflects the department's continuing efforts to focus its resources on the direct delivery of neighborhood policing services. The department has developed a number of strategies to work more efficiently in order to continue implementing its Neighborhood Policing partnership with the community it serves and to meet the expanded training and response initiatives required in the wake of the September 11, 2001 terrorist attacks and subsequent threats. One strategy is continued improvement of information management through enhanced technology. The department will also continue the review of personnel assignments, based on a position utilization analysis completed in 2001 by an outside consulting firm, to revise staffing patterns and assign more officers to direct service positions. The recommendations of the position utilization analysis, if fully implemented, could place more than 125 additional officers into direct service positions. In FY04, a particular emphasis will also be placed on the management of overtime. It should be noted that the appropriation includes funding for a class of recruits to replace some of the officers lost through attrition.

Economic Development

This cabinet shows a decrease of 13% in total appropriations from those funds appropriated in FY03. It should be noted that during FY03, there was a change made to the name and mission of the Minority and Women Business Enterprise Office (M/WBE). With the expiration of the City's M/WBE ordinance at the close of calendar year 2002, the Mayor issued an Executive Order on Small and Local Business Enterprise Development to ensure the equitable participation of small and local business in the City's contracting arena. The order also established the Small and Local Business Enterprise Office (S/LBE) that will be responsible for the development, coordination and implementation of the executive order.

The City's commitment to centralizing planning for the City within the Boston Redevelopment Authority will continue to be funded fully with BRA revenues in FY04.

Basic Services

A significant change in this cabinet is the transfer of the Public Works Department, Central Fleet Maintenance and Snow Removal from Basic Services to a new cabinet. The combined appropriations for the Basic Services cabinet show a decrease of 8.9%.

In FY04, the Parks Department will be reducing its administrative staff as well as its maintenance staff. These staff reductions may have an impact on the frequency and speed of service delivery.

The reduction in funding for Property & Construction Management will force reductions in staff levels that will impact direct service delivery. For example, reductions in the number of Animal Control officers are planned and will result in longer response times as well as selective responses. In addition, a review of security needs by departments located outside of City Hall has resulted in a reduction in security officers at those locations. In FY04, Property & Construction Management will also incur new property responsibilities as a result of the City's purchase of property formerly leased at 1010 Mass. Ave.

The reduced appropriation for the Office of Special Events will result in a lower level of support for public celebrations.

Streets, Transportation & Sanitation

The operations of the public works and transportation departments have been organized into a new cabinet to facilitate the consolidation of functional overlap between the two departments. The mission of the new cabinet will be to develop, implement, support and manage all programs, projects and policies that enhance clean, well-lit, attractive and efficient infrastructure for the City that moves vehicular and pedestrian traffic safely.

Departments included in this cabinet are Public Works, Central Fleet Maintenance and Transportation, as well as the City's appropriation for Snow Removal. Snow Removal will increase substantially based on a five- year average of FY99-

FY02 actual and FY03 projected expenditures. Without the Snow Removal appropriation, the net decrease in the appropriations for the cabinet is 3.6%.

The percentage decrease from FY03 to FY04 in the Public Works Department's appropriation is 3.6%, however when trash collection and disposal are taken out, the decrease in funding for the remaining operations of the department is 6.9%. Negative impacts on direct Public Works services include the closing of the Northern Avenue Bridge to pedestrians for a partial year and the elimination of summer youth workers and seasonal laborers and the auxiliary street cleaning services that they provide.

In FY04 the Transportation Department will pursue a lower cost alternative for towing operations and will institute a moratorium on new Resident Parking programs.

Environmental Services

This cabinet will also see a significant change in its makeup as the Transportation Department has been moved to a new cabinet as explained above. The total appropriations for the departments remaining in the Environment Cabinet are showing a combined decrease of 7.3%. The Inspectional Services Department (ISD) will sustain a decrease of 7.1 %. Continuing the integration of Code Enforcement into ISD has given the Commissioner the opportunity to review the responsibilities of ISD employees. The Commissioner has eliminated duplication of effort and consolidated functions wherever possible to minimize the direct service impact of the reduced FY04 appropriation. The Environment Department's appropriation will be reduced by 10%.

Human Services

Overall the appropriation for the Human Services Cabinet shows a net decrease of 10.4% from the total FY03 appropriation. The Veterans' Services Department is the only department that will receive an increase in FY04. The increase is due to the State requirements that the City provide financial aid to Veterans in the City of Boston. Any expenses that are incurred due to the state mandate are 75% reimbursed by the state. These reimbursements come to the City as General Fund

revenue. Boston Centers for Youth & Families (BCYF) will continue its efforts to provide greater efficiencies and enhance the provision of services in the areas of community capacity building, sports and recreation, youth development, after-school and out-of-school time and other services provided to children and families. In FY04, BCYF will regionalize its services and utilize a clustering site model. The clustering of sites within regions will allow the most efficient use of space, staff and resources. The new model will require less staff, however, staffing reductions will also occur due to budget restraints.

The Youth Fund appropriation will be reduced by over 43%. The City will face the difficult challenge of providing jobs for the youth of the City with severely limited financial resources. The Mayor has asked for an expanded commitment from the private sector to help wherever possible to remedy the situation through the provision of jobs or direct funding for summer employment. The Fund will continue to provide centralized funding for the support of the Mayor's Youthline.

Due to budget restraints in FY04 the Elderly Department will reduce senior shuttle hours by eliminating the 4-7 pm service. City support for senior events will also be reduced. Efforts to increase partnerships with the private sector and to identify external funding will continue in FY04.

Housing and Neighborhood Development

This cabinet is showing a major net decrease from the FY03 appropriation. The major portion of the decrease is the result of the decrease from \$13 million to \$3 million for Affordable Housing - Leading the Way (the City's comprehensive strategy to increase and protect Boston's housing supply). The \$3 million is the last portion of the City's \$33 million commitment to the program.

The 29% decrease in the Department of Neighborhood Development (DND) is partially the result of the transfer of the remaining portion of expenses related to the Capital Construction Program that were not transferred to the Property and Construction Management Department in FY03. In FY04 DND will maximize its use of external funds, such as the Community Development Block Grant, to minimize the impact of operating budget reductions on direct services. Reductions and restructuring in programs such

Historic Homeworks, Homebuyers Assistance and Boston Main Streets are planned for FY04.

Public Health Commission

The Commission is responsible for providing the public health operations formerly provided by the Department of Health and Hospitals (DHH) and Trustees of Health and Hospitals (THH). It is a principal component of the Boston Public Health Network, which includes the Public Health Commission, Community Health Centers, and Boston Medical Center. Through Boston Emergency Medical Services, the Commission also provides pre-hospital emergency care.

The FY04 appropriation for the Public Health Commission shows a decrease of 8.3% from the FY03 appropriation. The Public Health Commission Budget includes an \$11 million direct payment to the Boston Medical Center (BMC) required by the agreement reached when the City consolidated Boston City Hospital and Boston University Medical Center Hospital. This is a reduction of \$1 million from the direct payment required in FY03. The appropriation also funds an Emergency Medical Services (EMS) subsidy of \$8.2 million.

In addition to operating budget reductions, the Public Health Commission has also sustained significant reductions in state grant funding. As a result, programs funded with operating and external dollars will be impacted. Included in the direct service impacts are the closing of the homeless shelter site at St. Francis House and the closing of the methadone site at the Uphams Corner Health Center. These services will be relocated to other facilities. Programs to be eliminated include Boston Youth and Families Advocacy and Outreach, TB Testing, mental health, family planning and nutrition services in schools and all nursing services at 19 charter schools.

School Department

The FY04 School Department Budget is showing a \$4.5 million, or .7%, decrease from the FY03 appropriation. This FY04 funding level will result in increases in class size, closing of schools and the elimination of over 850 positions including over 425 teaching positions. Despite the reduction

in the appropriation, the School Department's budget will allow the department to move forward in several critical areas including the opening of three new schools, high school restructuring, and insuring that the gains made in student achievement are sustained. The School Department has also been successful in building a competitive environment for transportation services that resulted in the avoidance of substantial increases in costs in FY04. *(See the Education chapter of this volume for more details.)*

Appropriations by Cabinet

Cabinet	Department	FY01 Expenditure	FY02 Expenditure	FY03 Appropriation	FY04 Appropriation	Inc/(Dec) 04 vs 03
Mayor's Office	Boston 2 to 6	556,727	485,431	0	0	0
	Intergovernmental Relations	877,429	893,864	962,115	892,752	-69,363
	Law Department	4,859,704	5,056,982	5,319,008	4,545,200	-773,808
	Mayor's Office	1,875,270	1,753,999	1,693,871	1,432,155	-261,716
	Neighborhood Services	1,004,918	1,031,259	1,083,297	968,814	-114,483
	Office of New Bostonians	39,576	101,555	77,978	77,978	0
	Public Information	799,651	822,038	887,027	875,273	-11,754
	Total	10,013,275	10,145,128	10,023,296	8,792,172	-1,231,124
Chief Operating Officer	Chief Operating Officer	782,032	883,409	932,737	859,864	-72,873
	Consumer Affairs & Licensing	397,899	434,201	440,248	363,394	-76,854
	Graphic Arts Department	1,440,456	1,583,314	1,620,166	1,375,630	-244,536
	Health Insurance	87,232,847	99,260,487	104,356,398	125,372,228	21,015,830
	Human Resources	2,715,160	2,714,272	2,872,887	2,547,196	-325,691
	Labor Relations	888,293	883,963	893,034	897,989	4,955
	(1) Library Department	29,980,970	28,812,711	28,008,486	23,981,341	-4,027,145
	Management & Information Svs	10,778,688	10,175,365	14,606,504	13,225,277	-1,381,227
	Management Fund	225,000	0	0	0	0
	Registry Division	813,730	828,021	872,249	741,412	-130,837
	Unemployment Compensation	11,961	4,714	50,000	250,000	200,000
	Workers' Compensation Fund	4,169,661	3,758,291	2,000,000	2,200,000	200,000
	Total	139,436,697	149,338,748	156,652,709	171,814,331	15,161,622
Chief Financial Officer	Assessing Department	5,656,199	5,259,789	5,200,955	5,145,247	-55,708
	Auditing Department	3,621,452	7,947,045	1,866,608	1,809,523	-57,085
	Budget Management	2,632,010	2,639,061	2,303,318	2,098,718	-204,600
	Execution of Courts	2,008,239	5,000,000	3,100,000	3,500,000	400,000
	Medicare Payments	3,238,349	3,952,017	4,100,000	4,100,000	0
	Pensions & Annuities	6,300,000	5,965,000	4,900,000	4,900,000	0
	Purchasing Division	1,181,569	1,250,423	1,277,410	1,118,472	-158,938
	Taxpayer Referral & Assistance	411,932	417,885	438,901	0	-438,901
	Treasury Department	3,465,967	3,824,036	4,091,159	3,251,098	-840,061
	Total	28,515,717	36,255,256	27,278,351	25,923,058	-1,355,293
Public Safety	Fire Department	116,858,507	134,625,425	135,820,103	131,855,749	-3,964,354
	Police Department	214,286,307	219,548,409	220,314,930	210,211,829	-10,103,101
	Total	331,144,814	354,173,834	356,135,033	342,067,578	-14,067,455
Education	Boston Public Schools	611,925,112	639,710,231	650,617,707	646,100,000	-4,517,707
	Total	611,925,112	639,710,231	650,617,707	646,100,000	-4,517,707
Economic Development	Boston Redevelopment Authority	725,000	0	0	0	0
	Boston Residents Job Policy	437,055	459,174	490,518	429,119	-61,399
	Small/Local Business	580,318	647,710	626,072	542,449	-83,623
	Total	1,742,373	1,106,884	1,116,590	971,568	-145,022
Basic Services	Election Department	2,877,687	2,784,097	3,006,972	2,691,229	-315,743
	Parks & Recreation Department	14,323,814	15,090,719	13,768,860	12,157,347	-1,611,513
	Property & Construction Mgmt.	17,796,977	18,965,478	18,865,579	17,677,968	-1,187,611
	Special Events & Tourism	1,573,622	1,190,399	1,075,321	910,216	-165,105
	Total	36,572,100	38,030,693	36,716,732	33,436,760	-3,279,972
Streets, Transp & Sanitation	Central Fleet Maintenance	1,930,923	1,719,447	2,068,748	2,070,286	1,538
	Public Works Department	65,531,264	68,700,478	76,103,300	73,384,729	-2,718,571
	Snow Removal	10,581,825	4,413,201	4,370,101	7,678,266	3,308,165
	Transportation Department	28,181,878	28,689,859	28,468,556	27,319,669	-1,148,887
	Total	106,225,890	103,522,985	111,010,705	110,452,950	-557,755
Environmental Services	Environment Department	938,557	980,546	1,016,513	914,866	-101,647
	Inspectional Services Dept	12,724,027	12,951,700	14,083,959	13,081,103	-1,002,856
	Total	13,662,584	13,932,246	15,100,472	13,995,969	-1,104,503
Human Services	Boston Centers for Youth & Families	0	0	19,113,906	18,404,142	-709,764
	Boston Community Centers	14,954,743	15,594,053	0	0	0
	Civil Rights	351,248	292,794	353,884	277,190	-76,694
	Community Partnership	1,582,955	1,577,156	0	0	0
	Cultural Affairs	1,024,878	1,012,409	743,962	634,118	-109,844
	Elderly Commission	2,595,836	2,757,518	2,716,435	2,403,967	-312,468
	Emergency Shelter Commission	624,387	583,381	592,545	524,098	-68,447
	Veterans Services Department	2,336,159	2,994,562	2,400,451	3,198,983	798,532
	Women's Commission	159,823	151,635	164,919	140,181	-24,738
	Youth Fund	8,617,953	8,743,946	6,694,259	3,794,833	-2,899,426
	Total	32,247,982	33,707,454	32,780,361	29,377,512	-3,402,849
Neighborhood Development	Neighborhood Development	7,046,761	7,078,957	3,196,226	2,269,614	-926,612
	Leading the Way	13,000,000	0	13,000,000	3,000,000	-10,000,000
	Rental Housing Resource Center	665,582	646,257	741,292	647,015	-94,277
	Total	20,712,343	7,725,214	16,937,518	5,916,629	-11,020,889
Public Health	Public Health Commission	62,141,493	64,005,045	63,897,045	58,582,237	-5,314,808
	Total	62,141,493	64,005,045	63,897,045	58,582,237	-5,314,808
Non-Mayoral Departments	City Clerk	839,498	863,854	915,390	833,596	-81,794
	City Council	3,333,130	3,534,186	3,893,182	3,803,657	-89,525
	Finance Commission	182,958	184,254	192,316	159,375	-32,941
	Licensing Board	606,252	581,780	597,847	558,329	-39,518
	Total	4,961,838	5,164,074	5,598,735	5,354,957	-243,778
	Grand Total	1,399,302,218	1,456,817,792	1,483,865,254	1,452,785,721	-31,079,533

(1) The FY01 Library expenditures include State Library of Last Recourse funds; the FY02 and FY03 amounts do not.

Pensions

The City's pension expense has increased modestly over the last several years. The City's annual pension funding requirement was \$127.5 million in FY01, \$129.8 million in FY02, and \$134.4 million in FY03. The City expects the FY04 pension-funding requirement to be \$135.1 million. These numbers do not include pension costs allocated to the budgets of the Suffolk County Sheriff's Department or the Public Health Commission. Meanwhile, the percentage of the City's overall pension liability that has been funded has improved from 52.0% in January 1, 1995 to 62.6% in January 1, 2002. There are two reasons for this. First, the increased percentage set aside for pension funding which has risen from 5% for employees hired in the early 70's and before, to 9% for more recent hires, continues to aid the system's trend toward full funding. Second, the average annual rate of return on assets during this period has exceeded the 8% rate of return assumed in the City's pension funding schedule. It should be noted, however, that the 62.6% of pension liability funded recorded for January 1, 2002 is a major step back from the 75.5% recorded for January 1, 2001. The SBRS, along with most pension systems nationwide, has recorded diminishing or negative annual returns subsequent to the stock market peak in the spring 2000.

The impact of these two items is incorporated into the City's pension funding schedule each time the pension system does a full valuation. State law calls for full valuations at least every three years. The most recent valuation was approved during FY03 and the pension system is therefore required to do another full valuation during FY06. Furthermore, as part of its FY05 funding requirement, the SBRS will begin requiring an amortization payment from the City for the increase in liability that resulted from the 2002 early retirement incentive (ERI) taken by 476 City employees. It is currently estimated that the increase in pension liability from all SBRS member ERI's was \$60 million.

A fundamental shift regarding the liability for pension cost-of-living-adjustments was reflected in the valuation of FY98. The Commonwealth no longer funds cost-of-living-adjustments as they had since the enactment of Proposition 2 1/2. The City

has opted to accept the responsibility for future cost-of-living-adjustments for its retirees.

Debt Service

The City had expenditures for debt service of \$106.0 million in FY01 and \$115.6 million in FY02. The City has a budget of \$124.9 million for debt service in FY03 and expects to spend \$126.6 million on debt service in FY04. The increase in debt service in recent years reflects the increased amounts that were borrowed in FY99-00 (\$120 million annually). FY02 (\$100 million), FY03 (\$75 million) and FY04 (\$65 million) reflect an adjustment necessary in the current economic climate. The higher borrowing level was a consequence of increased capital renovations and planned new construction for three new Boston Public Schools, which are partially reimbursed by the Commonwealth. FY04 gross debt service will slightly exceed the City's traditional guideline of 7% of total expenditures largely due to an expected decrease in local aid. For further detail see the *Capital Planning and Financial Management* chapters of this volume.

State Assessments

Accompanying the local aid distributions on the cherry sheet are several charges to the City from the Commonwealth. All but the state assessment for the Massachusetts Bay Transportation Authority (MBTA) are relatively small. In accordance with Proposition 2 1/2, these charges, on a statewide basis, cannot increase annually by more than 2.5%. The City's state assessment increased from \$67.8 million in FY02 to \$68.5 million in FY03. The City expects growth in assessments to \$69.5 in FY04. As a result of a new schedule of MBTA assessments passed with the FY01 state budget, the City expects lower statewide MBTA assessments in the future. The new schedule allows cities and towns serviced by the MBTA to deduct the cost of operating Regional Transit Authorities from their assessment. Since the City has no such system and therefore no deduction, the net effect is a higher assessment as the City pays a higher share of a lower statewide assessment. In the past, the cost of operating the MBTA has traditionally grown at a much faster pace than the allowable 2.5% increase in state assessments and consequently so has the

Commonwealth's annual subsidy to the MBTA. Along with this new MBTA assessment schedule, the Commonwealth has given the MBTA a budget instead of covering their annual shortfalls with a subsidy.

Suffolk County Sheriff

Prior to FY93, state support of county corrections for Suffolk County was by means of state aid into the City's general fund. In FY93, the Commonwealth shifted its support of county corrections from the City's general fund to directly funding the Sheriff's Department. By FY96, the City was responsible for funding 12.5% of the Sheriff's Department Budget with the Commonwealth funding the rest. Because this was close to double the percentage of the FY96 statewide local contribution over statewide county corrections spending, the City received a reduction in the maintenance of effort requirement for FY97 to 8.75% of the Sheriff's Budget, a reduction in FY99 to 6.875% and a subsequent reduction to 5% in FY02. Based on the financial status of the City and the State, the appropriation for the FY04 maintenance of effort requirement is based on the assumption of a level funded Sheriff's budget and a 4% maintenance of effort requirement. It should be noted that the FY03 requirement as communicated by the County Government Finance Review Board was slightly less than the amount appropriated in the City's FY04 budget.

Note: As stated at the beginning of this chapter, the appropriation for the Suffolk County Sheriff, which is mandated by the State, is included in the Fixed Costs section of the Budget Summary. In previous years funding for the Sheriff was shown in the Appropriations section as part of a County appropriation. Because funding for the Suffolk County Sheriff is a mandated cost it is more appropriate to categorize it as a fixed cost.

Reserve

The City is required by law to maintain a reserve on its balance sheet of 2.5% of the prior year appropriations, not including the School Department, which has its own separate reserve. The current balance of this reserve is \$21 million. The reserve can be used to provide for extraordinary and unforeseen expenditures and the Mayor may make drafts or transfers against

this fund with City Council approval only in the month of June. Since the establishment of this reserve, the City has yet to make any drafts or transfers from the reserve. The City expects to fulfill the FY04 Tregor Reserve requirement to add approximately \$150,000 to the reserve before the close of FY03. (see *Financial Management* section of Volume I for detail.)

PERSONNEL CHANGES

The following table shows a four-year comparison of city funded full-time equivalent (FTE) positions. (This includes both permanent and emergency employees.) The projected numbers used for FY04 are estimates based on the level of funding for personnel contained in the FY04 budgets.

Tregor Reserve Fund				
Fiscal Year	Beginning Year Balance	Funds In	Funds Out	Ending Year Balance
FY97	18.680	0.000	0.000	18.680
FY98	18.680	0.000	0.000	18.680
FY99	18.680	0.000	0.000	18.680
FY00	18.680	0.000	0.000	18.680
FY01	18.680	1.308	0.000	19.988
FY02	19.988	1.000	0.000	20.988
*FY03	20.988	0.151	0.000	21.139
*FY04	21.139	0.000	0.000	21.139

Notes: (\$millions), *projected

Personnel Summary

		1/1/01 FTE	1/1/02 FTE	1/1/03 FTE	1/1/04 Projected	Projected Inc/(Dec)
Office of the Mayor	Boston 2 to 6	4.0	4.0	-	-	-
	Intergovernmental Relations	8.0	10.0	7.8	8.8	1.0
	Law Department	47.0	43.0	46.0	46.0	-
	Mayor's Office	29.0	26.5	21.9	21.9	-
	Neighborhood Services	23.0	21.0	20.0	20.0	-
	Office of New Bostonians	-	1.0	1.0	1.0	-
	Public Information	19.0	17.1	14.6	14.6	-
	Total	130.0	122.6	111.3	112.3	1.0
Chief Operating Officer	Chief Operating Officer	9.0	10.0	8.0	8.0	-
	Consumer Affairs & Licensing	9.0	9.0	8.0	7.4	(0.6)
	Graphic Arts	37.0	40.0	34.0	33.0	(1.0)
	Human Resources	54.0	50.2	46.2	45.0	(1.2)
	Labor Relations	11.0	12.0	11.0	11.0	-
	Library Department	558.7	575.1	474.7	436.9	(37.8)
	Management Info Svcs	83.0	84.0	106.0	101.0	(5.0)
	Registry Division	21.0	22.0	17.0	19.0	2.0
	Total	782.7	802.3	704.9	661.3	(43.6)
Chief Financial Officer	Assessing Department	90.0	85.0	75.0	84.0	9.0
	Auditing Department	52.0	62.0	32.0	33.0	1.0
	Budget Management	27.6	27.9	25.7	24.7	(1.0)
	Purchasing Division	20.0	20.0	19.0	19.0	-
	Retirement Board	-	-	-	-	-
	Taxpayer Referral & Assistance	9.0	10.0	6.0	-	(6.0)
	Treasury Department	58.0	62.0	57.0	56.0	(1.0)
	Total	256.6	266.9	214.7	216.7	2.0
Public Safety	Fire Department	1,732.0	1,697.5	1,713.5	1,613.0	(100.5)
	Police Department	2,958.3	2,964.0	2,894.9	2,855.0	(39.9)
	Total	4,690.3	4,661.5	4,608.4	4,468.0	(140.4)
Education	School Department	8,437.5	8,509.5	8,439.7	7,201.1	(1,238.6)
	Total	8,437.5	8,509.5	8,439.7	7,201.1	(1,238.6)
Economic Development	Small/Local Business	8.0	8.0	8.0	8.0	-
	Office of Boston RJP	10.0	10.0	9.0	8.0	(1.0)
	Total	18.0	18.0	17.0	16.0	(1.0)
Basic City Services	Election	44.7	33.3	30.3	22.3	(8.0)
	Parks and Recreation	235.0	230.6	205.6	203.0	(2.6)
	Property & Construction Mgmt.	278.8	294.0	320.4	318.0	(2.4)
	Special Events & Tourism	9.0	10.0	9.0	9.0	-
	Total	567.5	567.9	565.3	552.3	(13.0)
Streets, Transp & Sanitation	Central Fleet Maintenance	48.0	43.0	42.0	43.0	1.0
	Public Works Department	389.0	407.6	383.6	383.6	-
	Transportation	438.0	437.9	385.9	374.9	(11.0)
	Total	875.0	888.5	811.5	801.5	(10.0)
Environmental Services	Environment	16.0	17.0	16.0	15.0	(1.0)
	Inspectional Services	237.6	231.0	239.0	231.0	(8.0)
	Total	253.6	248.0	255.0	246.0	(9.0)
Human Services	Boston Center for Youth & Families	-	-	375.1	352.1	(23.0)
	Civil Rights	8.0	8.0	8.0	8.0	-
	Community Centers	370.2	375.8	-	-	-
	Community Partnerships	12.0	11.0	-	-	-
	Cultural Affairs	8.0	7.0	5.0	9.0	4.0
	Elderly Commission	61.0	64.0	57.3	57.3	-
	Emergency Shelter	6.0	6.0	5.0	6.0	1.0
	Veterans Services	17.0	18.8	15.8	15.8	-
	Youth Fund	4.0	4.0	4.0	4.0	-
	Women's Commission	3.0	2.6	2.6	2.0	(0.6)
	Total	489.2	497.2	472.8	454.2	(18.6)
Neighborhood Development	Neighborhood Development	111.0	107.1	37.8	37.8	-
	Rental Housing Resource Center	15.8	14.1	14.1	14.1	-
	Total	126.8	121.2	51.9	51.9	-
Public Health	Public Health Commission	755.9	768.1	745.0	745.0	-
	Total	755.9	768.1	745.0	745.0	-
Non-Mayoral	City Clerk	15.0	15.0	13.4	12.4	(1.0)
	City Council	70.2	69.9	67.6	69.2	1.6
	Finance Commission	4.0	4.0	2.0	2.0	-
	Licensing Board	11.0	11.0	10.6	10.6	-
	Sheriff's Department	-	-	-	-	-
	Total	100.2	99.9	93.6	94.2	0.6
Grand Total		17,483.3	17,571.6	17,091.1	15,620.5	(1,470.6)

FY02- FY03 FTE Changes - The total net decrease of 480.5 FTEs from January 1, 2002 to January 1, 2003 was the result of several steps taken by the Administration to address reductions in State Aid that occurred both before and after the passage of the City's FY03 budget. Although the City has been engaged in a downsizing effort since FY02, the actual FTE decrease was much higher than originally projected due to a number of factors including the large number of employees that took advantage of the Early Retirement Incentive Program in the fall of 2002 and strict controls that were put on backfilling the resulting vacant positions. It is important to note that the substantial decrease in the Library Department is the result of a combination of downsizing and a change in accounting for state funded positions. Historically, the positions funded with State Library of Last Recourse funds had been counted in the City's internally funded FTE count when they were truly externally funded positions. In FY03, the FTEs related to state funded positions were split between the operating budget and the respective grants. The split allows charges for these positions to be allocated directly to multiple funding sources reducing the amount of time spent on paperwork necessary to do expenditure transfers and reports for State reimbursements.

Several structural changes also occurred in FY03 that impacted the changes in various individual departments. Specifically, the Capital Construction Program moved from the Department of Neighborhood Development to Property & Construction Management, the BAIS Support Program moved to MIS from Auditing and Code Enforcement was transferred from Property & Construction Management to ISD. In addition, Boston Community Centers, Community Partnerships, Boston 2-6 and the Recreation Program of the Parks Department were consolidated into Boston Centers for Youth & Families.

FY03-FY04 FTEChanges – The City expects to have a substantial net decrease in FTEs between FY03 and FY04 as a result of personnel budget reductions as the City prepares itself for another substantial reduction in State Aid in FY04. Overall the decrease is projected to be approximately 1,471 FTEs.

The number of positions in the Mayor's Office Cabinet is expected to remain stable in FY04 after a significant decrease from FY02 to FY03. The only increase reflected is in the Intergovernmental Relations Department as a result of filling a vacancy in the Grants Administration program.

The total decrease in the Chief Operating Officer's cabinet is the result of decreases projected for all departments but two. The Registry Division will fill two vacant positions but still will be forced to close one day a week due to understaffing. The Library Department will be eliminating positions as well as consolidating some of its services to require fewer employees.

The increase in the FTE count for the Finance Cabinet is mainly caused by the timing of the approved backfilling of positions vacated through the Early Retirement Incentive Program in the Taxpayer Referral & Assistance Center (TRAC) and the Assessing and Auditing Departments. In FY04 TRAC has been consolidated into the Assessing Department.

The number of Public Safety employees on the payroll as of January 1 of any year fluctuates with the timing of classes and the timing of retirements. After considering the current number of filled positions, expected retirements, and the elimination of filled positions, the net decrease projected for Public Safety FTEs is 140.4. The redeployment of uniformed officers in both Police and Fire will be utilized to limit the impact of the decrease on direct field services, however this substantial reduction in FTEs will have an impact on service delivery. For example, the FTE reductions in the Fire Department coupled with the constraints on non-contractual overtime spending may cause the temporary closings, or "brownouts" of some companies.

Education is projected to decrease by about 1,239 FTEs from January 2003 to January 2004. Included in that number is a substantial number of teaching positions.

The FTE count in the Economic Development Cabinet is projected to decrease by one in FY04 due to the elimination of a position in the Office of Boston Residents Jobs Policy.

The projected decrease of 13 in the Basic Services Cabinet results from the elimination of filled positions in all departments except one.

The Streets, Transportation & Sanitation Cabinet will be reduced by 10 FTEs. Transportation will be down by 11 FTEs as it seeks to provide a lower cost alternative for towing services and eliminate administrative positions.

The Environment Cabinet is projected to have a decrease of 9 FTEs with all but one in the Inspectional Services Department. Consolidating functions and eliminating duplication should allow that department to provide an adequate level of service within the confines of a reduced appropriation.

The service impact of a projected net decrease of 18.6 FTEs in the Human Services Cabinet will be mitigated partially as the result of the efficiencies gained by the regionalization and clustering model to be used by Boston Centers for Youth & Families (BCYF) in FY04. The department will focus on the most efficient and equitable way to staff its Community Centers within the new regions and clusters.

Staffing at the Public Health Commission as of January 1, 2004 is expected to be at the same level it was in January of 2003.

The FTE count in the Housing & Neighborhood Development cabinet is expected to remain level. The Department of Neighborhood Development will be able to utilize the total external funding allowed for administration purposes to cover a greater percentage of the salaries in the department as there are now fewer employees in the department.

The FTE count for the Non-Mayoral group of departments is projected to remain stable.

EXTERNAL FUNDS

Supplementing the services that are provided by the City's \$1.8 billion Operating Budget is approximately \$312.6 million in external funds. These funds consist mostly of federal, state and private funding earmarked for specific purposes. Education, housing, economic development and public health are some of the largest areas for which these funds are targeted.

Nineteen departments and agencies expect to utilize federal, state or other forms of external funding in FY04. Since there are hundreds of grants and many of them are small, the focus here

is on the largest grants. Over 90% of the City's external funds are found in five of those nineteen departments. These five departments are the School Department, Neighborhood Development, Public Health Commission, Library Department, and Police Department. Other departments that also have significant grant funding are the Elderly Commission and the Parks Department.

Descriptions and amounts for grants by department can be found in Volumes II and III.

State funding provided for the Central Artery / Third Harbor Tunnel (CA/T) related City services is not mentioned below because this funding is diffused among several City departments. As the purpose of the CA/T funding is project-specific, the duration of this funding will not go beyond the project itself. Departments providing the most significant CA/T-related services are Transportation, Fire, Police and the Public Health Commission. The City has a current agreement with the State's Central Artery/Tunnel Project on a one-year budget extension that runs through June 30, 2004.

Federal and State Grants

Some of the larger federal grants received by the City have been a vital source of funding. For example, in FY04, the School Department is expected to receive \$44.6 million from Title I, a grant that the City has been receiving for a number of years. This funding has supplemented education programs in schools with significant populations of low-income students. The City has also received for many years Community Development Block Grant (CDBG) funding for a variety of neighborhood development activities. Other sources of federal funding received by the City address diverse needs and/or creative approaches such as community policing, housing support for the homeless, and investment in the City's Empowerment Zone.

State grant funding is significant in the area of library services. Over the long-term, state support for the City's Library system has grown, although in FY04 the City is projecting a reduction in state Library funding based on the current fiscal situation. The state's largest contribution for local services is in the area of K-12 education. However, most of this funding is direct to the City's general

fund, in which the major requirement for receipt of the funds relates to a minimum general fund school budget. For FY04, the state is projected to distribute \$200.5 million to Boston directly to the City's general fund in Chapter 70 educational reform aid. (This funding is not included in the table below as it is general fund revenue.) Although this source of funding historically has increased on an annual basis, the FY03 revenue represents level funding with the FY02 amount and the FY04 projection represents a 2.5% decrease from FY03.

A description of the largest federal and state supported programs in the six departments managing the bulk of the City's external fund resources is given below.

Neighborhood Development

The Community Development Block Grant (CDBG) is a sizeable annual entitlement grant from the U.S. Department of Housing and Urban Development (HUD) to the City of Boston designed to fund a variety of neighborhood development activities. The City (the Department of Neighborhood Development and the Fair Housing Commission) expended approximately \$29.3 million in CDBG funding in FY02, and estimates spending \$30.1 million in FY03 and \$28.5 million in FY04. The FY04 amount becomes available in July 2003. At least 70% of CDBG funds must be used to benefit low and moderate-income households. CDBG funds are used to produce and preserve affordable housing, revitalize neighborhood commercial districts, assist the renovation of non-profit facilities, improve vacant lots, promote and monitor fair housing activities, and assist non-profit organizations in the operation of emergency shelters, health care, youth and adult literacy programs. CDBG funds cannot be used for general government services and cannot replace funding cuts from existing public service activities. CDBG funding is also being utilized as a security for Section 108 loans.

Emergency Shelter Grant/HOPWA/Shelter Plus Care/Supportive Housing - HUD administers these four federally funded grants. FY03 expenditures are projected to be \$17.3 million while another \$19.6 million is expected to be utilized in FY04. The Emergency Shelter and HOPWA (Housing Opportunities for Persons With AIDS) grants are entitlement grants that become available in July of

each year. The Emergency Shelter grant supports the development and operations of emergency shelters for the homeless. The HOPWA program provides housing, rental assistance and support services for persons with AIDS. The Shelter Plus Care grant program provides rental assistance for homeless people with disabilities, primarily those with serious mental illness or chronic problems with alcohol and/or drugs. Other federal, state or local sources provide the support services that must match the value of the rental assistance. The Supportive Housing Program provides service, operating and/or capital funds for a broad range of housing and social service projects. The program requires that applicants match the amount of supportive housing acquisition and development funds requested with an equal amount of funding from other sources. Shelter Plus Care and Supportive Housing are both competitive grants; the FY04 awards will be announced in the fall.

HOME Investment Partnership - The HOME Partnership Program is an entitlement grant from HUD to support the development of affordable housing. FY04 funds will become available in July 2003. The City expended \$4.59 million in this program in FY02 and estimates spending \$7.8 million in FY03. Projected spending for FY04 is \$8.5 million. Eligible activities include new construction or rehabilitation of housing, tenant-based rental assistance for up to two years, and assistance to first-time homebuyers. All HOME funds must be used to benefit low and moderate-income households. Fifteen percent of HOME funds are set aside for projects sponsored by Community Housing Development Organizations and five percent is set aside for operating costs for Community Housing Development Organizations.

Section 108 Loan Project/Economic Development Initiative - Section 108 funds are available to eligible cities from HUD on an application basis. The City, through a pledge of its current and future CDBG grant awards, secures Section 108 funds. These funds can only be used for economic development and housing development projects. The Economic Development Initiative Program is a special HUD program that makes available grants to cities to spur economic opportunity. This initiative also promotes community development through a long-term strategy: a) establishing community-based partnerships; b) training residents for new job opportunities; c) developing

a plan for responding to community needs by integrating economic, physical, human, and other strategies. The City received two multi year grants of \$22 million each for these two programs for use within the Empowerment Zone. (Another \$3 million was reserved for social service activities in the Empowerment Zone.) The funds are used to assist new or existing smaller scale neighborhood commercial enterprises and larger scale commercial and/or industrial development projects. These funds must be used to lower the cost or lower the risk to the City on Section 108 loans made to eligible economic development projects. Spend down of these funds has been spread over the past several years.

The City has also requested \$40 million in new Section 108 Loan Guarantee funds for FY04. These funds will be used to create a Hotel Development Loan Fund to stimulate local hotel development.

School Department

The School Department's FY04 General Fund Budget of \$646.1 million is supplemented with approximately \$128.8 million in external funds. There are four main categories of funding: formula grants, competitive grants, reimbursements and other (private resources for the most part). Title I and the School Lunch Reimbursement program are the two largest external funding items and make up the bulk of federal support.

Community Partnerships for Children - The Community Partnerships Program funding is the largest competitive grant received by the School Department. This is a State program intended to create an early education system in the City of Boston with Head Start Centers, Private Day Care Centers, and Family Based Day Care. The amount budgeted by the School Department for this program is \$12.77 million in FY03. In FY04, funding is estimated at \$11.25 million.

Title II Teacher Quality - The School Department expects to receive \$7.44 million in FY04 from this federal grant program to improve the quality of staff in the classrooms.

Class Size Reduction - The City is expecting to expend \$3.78 million in FY03 from a class size reduction grant from the state. It is expected that this funding will be eliminated in FY04.

Title I - This federal program supplements education in schools with significant populations of low-income students. This key source of funding for the Boston Public Schools makes up a large portion of the federal formula grant funding received. The School Department estimates spending levels for this program in FY03 and FY04 of \$38.7 million and \$44.6 million, respectively.

School Lunch - The School Lunch program, administered by the Department of Agriculture, reimburses local school districts on a per meal basis for the costs of breakfast and lunch for low-income students. The School Department has budgeted this federally funded reimbursement program at \$21 million for both FY03 and FY04.

SPED 94-142 Entitlement - This is a federal formula grant in support of special education programs. The amount budgeted by the School Department in this program area for FY03 and FY04 is \$14.1 million and \$16.7 million, respectively.

Public Health Commission

Boston Healthy Start - The purpose of this project is to develop a comprehensive needs assessment and carry out a service plan to address those factors most affecting infant mortality in the City of Boston. Three project areas consist of those census tracts found to have both the highest numbers of infant deaths and the highest infant mortality rates in the City. Overall, the City has experienced significant improvement in this health area. The Public Health Commission projects to receive \$1.7 million for this program in FY04.

Ryan White Care Act - This funding is intended to help communities increase the availability of primary health care and support services, increase access for under-served populations and improve the quality of life of those affected by the HIV/AIDS epidemic. Contracts support approximately 71 community agencies and 146 programs in the 10 county region of Massachusetts and southern New Hampshire. The estimated level of spending for this federally funded program is \$14.55 million for FY04.

Shelter: Long Island- Federal funding. This project provides homeless services in the form of shelter, food, clothing, health care, and social

services for up to 500 homeless adult men and women. The Shelter also provides a room for families in crisis. Guests arrive at the shelter via shuttle bus from the Boston Medical Center campus. Overall, projected external funding for homeless services in the Public Health Commission Budget for FY04 totals \$7.9 million.

Police Department

The Police Department's grant funding on both the federal and state level has focused mostly upon adding police officers and community policing.

Same Cop, Same Neighborhood - This neighborhood policing program is based on the belief that police officers and private citizens working together can help address community problems related to crime. The program is supported with a grant awarded by the Massachusetts Executive Office of Public Safety. The total cost of the program supported by this grant was \$2.9 million in FY02; estimated expenditures for FY03 are \$4.7 million. For FY04 the Department expects to have \$4 million available for this program.

BJA Block Grants - This federal program is awarded by the Bureau of Justice for the purpose of reducing crime and improving public safety through the purchase of police equipment, the use of police overtime, and to support community partnerships for community policing. Spending for this program was \$3.1 million in FY02, and is estimated to be \$2.3 million in FY03 and \$2.8 million in FY04.

Judicial Oversight Demonstration Initiative - These funds, made available through the Violence Against Women Act and awarded by the U.S. Department of Justice, are being used to increase offender accountability and improve victim safety

through the development and implementation of the Dorchester Domestic Violence Court. Spending from this grant is expected to be about \$2.1 million in FY03 and \$1.6 million in FY04.

Overall, the level of support from the federal government for local crime control has been consistent over the past few years. Total projected spending for all grants in FY04 is estimated at \$10.7 million; not all grants listed have been awarded. The nature of the police grant programs has tended to be short-term funding that runs its course and serves its purpose and is then supplanted by new programs.

Library Department

Total state funding for the Library was reduced from \$9 million in FY02 to an estimated \$8 million for FY03. In FY04 the Library expects that approximately \$8 million will again be available from the state. There are four state programs that relate to libraries; they are described below.

Library of Last Recourse - The Library of Last Recourse provides reference and research services for individual residents of the Commonwealth at the Boston Public Library through developing, maintaining, and preserving comprehensive collections of a research and archival nature to supplement library resources available throughout Massachusetts. The Library maintains the personal resources, expertise, and bibliographic skills needed to develop and provide access to reference and research collections. Funding for this program is expected to be level in FY04.

Boston Regional Library - The Boston Regional Library System Program (BRLS), which has replaced the Eastern Regional Library System, is a cooperative organization of 105 public, academic, school and special (government, medical, non-

External Funds			
	FY02 Expenditure	FY03 Estimated	FY04 Estimated
Boston Public Schools	130,955,905	134,723,084	128,801,654
Neighborhood Development	69,583,528	67,807,173	105,415,854
Public Health Commission	45,442,700	39,647,285	38,754,370
Library Department	10,443,262	11,369,980	10,520,567
Police Department	9,281,600	14,657,390	10,725,601
Other	20,682,328	21,310,887	18,350,403
	286,389,323	289,515,799	312,568,449

profit, and corporate) libraries in the cities of Boston, Malden and Chelsea. Headquartered at the Boston Public Library, BRLS supports enhanced reference and information services, interlibrary loan and journal document delivery, continuing education and staff development, consulting on library operations and a variety of cooperative programs. The BRLS operates under a cost reimbursement agreement granted by the Commonwealth of Massachusetts Board of Library Commissioners. Funding for this program is also expected to be level in FY04.

Statewide Reference & Referral – The Boston Public Library, under contract with the Commonwealth of Massachusetts Board of Library Commissioners, provides supplemental reference and referral, journal document delivery and project management services to libraries throughout Massachusetts. Funding for this program was cut drastically in FY03 and is expected to be eliminated in FY04.

State Aid to Libraries - This funding is provided by the Commonwealth of Massachusetts Board of Library Commissioners to the Trustees of the Public Library of the City of Boston annually. The Library is required to meet certain minimum standards of free public library service established by the Board to be eligible to receive the grant. Funding for this program is expected to be reduced slightly in FY04.

FY04 - FY05 BUDGET PLAN

Introduction

In the FY97 Budget, a two-year financial projection was presented for the first time. While statutorily the City must maintain an annual budget process subject to the appropriating authority of the City Council, the second year projection provides a useful context for these decisions.

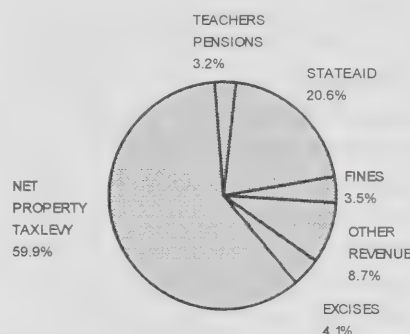
In projecting the City's operating budget for FY05, the issue of state aid stands out as the most critical for two reasons. First, while the nation appears poised on the edge of economic recovery, state tax revenues are likely to lag economic growth continuing the dearth of revenue growth the state will be able to generate without significant tax increases, and second, given rapidly rising fixed costs and the use of one-time revenues

in the FY04 state budget, a \$1 billion to \$2 billion structural imbalance is likely to remain in the next fiscal year.

The budget for FY04 has been based on the most current available revenue picture. The FY05 plan reflects the best estimate of revenues as well as projecting the major components of expenditures given current policy and cost trends.

Revenue Trends

The following pie chart displays the breakdown of revenue projected for FY05. (Figure 9.)



FY05 Estimated Recurring Revenue

Figure 9

Major revenue trends for FY05 include:

Property Tax Levy: The 2.5% increase and a projected \$20.0 million of new growth will result in \$47.2 million or 4.3% in additional gross tax levy. The net property tax assumes an overlay reserve set at 4.0%.

Excises: Excises are expected to increase, reflecting recovering hotel and jet fuel excises overall, with the help of activity from the Democratic National Convention which will be held in Boston in August of 2004.

Fines: Fines overall are expected to remain level after recent fine increases were implemented in FY04.

Interest on Investments: Interest income is expected to increase \$1.6 million or 26% as short-term interest rates increase with an accelerating economy yielding better returns for the City's short-term investments.

Payments in Lieu of Taxes: With no major new agreements expected, PILOT revenue should increase \$500,000 or 2.3%. This increase essentially captures the inflation in the current agreements.

Chapter 121A: Increases in payments are expected to total \$2.3 million or 5.2%.

Miscellaneous Department Revenue: Projected from historical trends and conservative economic assumptions, miscellaneous department income should increase \$2.2 million, or 6.3%.

Licenses and Permits: Constrained by a decrease of \$1.0 million in building permits, the City expects an \$0.8 million or 3.7% decrease in FY05.

Penalties & Interest: Projected to remain flat in FY05 as late tax payments, and therefore penalties and interest paid, decline as the economy improves and the strain on household budgets is reduced.

Available Funds: No increase from FY04 is expected in FY05.

State Aid: Projected to decline by nearly \$30 million or 7.4% when compared with the FY04 Budget. State Aid will be at risk until a sustained recovery of state tax revenues enables a return to growth in local aid distributions and the Commonwealth fully addresses the structural imbalance that currently exists.

Teachers' Pension Reimbursement: An increase of \$4 million is expected in FY05 from this reasonably predictable reimbursement arrangement with the state.

Non-Recurring Revenues: For FY05, \$1.0 million will be applied to the risk retention reserve through a transfer from the surplus property fund.

Budgetary Fund Balance: For FY05, the use of Budgetary Fund Balance has not been factored into the financial projection. The City's planning process for FY05 will need to strike a balance between reducing spending and using a responsible allocation of City reserves.

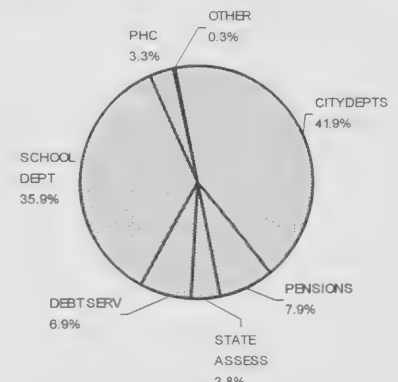
Total recurring revenues in FY05 are projected to increase by \$41.4 million, or 2.3% over FY04 Budget projections. This increase is based on conservative revenue estimates and an assumption that the economy will slowly return to a

reasonable level of growth in the 24 months from the beginning of FY04 to the end of FY05.

Expenditure Trends

The following pie chart displays the allocation of expenditures projected for FY05. (Figure 10.)

Based on inflationary increases estimated for certain expenditures within departments such as utilities, health insurance and trash collection and disposal, as well as a provision for collective bargaining increases the total increase in appropriations is expected to be, \$48.15 million, or 3.3% in FY05.



**FY05 Estimated Expenditures
as a Percentage of Recurring
Revenue
Figure 10**

Collective Bargaining Reserve: Many of the city's collective bargaining agreements expired on June 30, 2002. Two others, including firefighters, expired on June 30, 2003. The Boston Teachers Union contract and many other school union contracts expire during the first quarter of FY04. The collective bargaining reserve for FY05 takes all of these factors into account. The reserve is not being shown separately in FY05 but has been allocated among the appropriation groups.

Fixed Costs: Given that the pension-funding schedule for the current city payroll, the debt service policies followed in the City's capital plan, and mandated state assessments are known, fixed costs can be predicted fairly accurately. In FY05, fixed costs will increase by \$17.5 million or 5.2%, led by a \$12.1 million or 9.0% increase in pension costs and a \$3.2 million dollar or 2.5% increase in debt service due to borrowings to fund school construction and other capital projects. Pension costs include a provision for the amortization

payment for the increased liability that resulted from the 2002 early retirement incentive (ERI) offered by the City.

Under these assumptions, the City's Operating Budget would have a projected deficit of approximately \$52.2 million.

Planning a Balanced Budget

Preparing a two-year planning horizon is useful because it provides time to make adjustments to relieve the cost pressures on certain services. It also promotes cost-saving or new programming alternatives to improve the financial position projected in the second year, and helps us to monitor changes in assumptions as new needs or innovations present themselves.

Much of the City's budget remains fairly stable during the year, but variances as little as 1% could add up to an \$18 million problem in the bottom line. Common areas of variance are snow removal, with year-to-year swings of millions of dollars; legal settlements, which the City attempts to reserve for but may need to absorb on a pay-as-you-go basis; public safety overtime, particularly if a significant event occurs (such as the terrorist attacks of September 11, 2001, for example), or an outside source of funding is suddenly eliminated for an essential need.

The City's fiscal controls are effective in reducing the chance for an unmanageable deficit. Managing position vacancies through the Office of Budget Management and the COO's Office ensures that justifications to add personnel fit within the City's fiscal parameters. The implementation of the City's financial and human resources information system (BAIS) has raised the level of systematic controls that can be used to project and plan for personnel funding requirements.

Conclusion

This two-year overview is provided as a guide to understand the impacts of the decisions presented in the budget, and to provide a framework for future initiatives and financing proposals. Although it is not statutorily required, it is a useful tool in long-range planning and policy analysis.

From a budget planning and management standpoint, the parameters summarized here are

being built upon through an interactive forecast model with key departments, to allow the development of multi-year scenarios for individual departments' operations, set within the financial constraints affecting the City's overall budget.

CITY OF BOSTON BUDGET SUMMARY

(Dollars in Millions)

	FY04 Budget	FY05 Projected
REVENUES		
Property Tax Levy	1,086.15	1,133.31
Overlay Reserve	(51.72)	(43.59)
Excises	69.26	75.25
Fines	63.30	63.38
Interest on Investments	6.20	7.80
Payments In Lieu of Taxes	23.75	24.30
Urban Redevelopment Chapter 121A	44.86	47.17
Misc. Department Revenue	34.71	36.91
Licenses and Permits	22.75	21.91
Penalties & Interest	8.00	8.00
Available Funds	11.87	11.85
State Aid	404.05	374.35
Teachers Pension Reimbursement	53.68	57.70
 Total Recurring Revenue	 1,776.87	 1,818.32
 Non-Recurring Revenue	 4.88	 1.88
Budgetary Fund Balance	25.00	0.00
 Total Revenues	 1,806.75	 1,820.19
EXPENDITURES		
City Departments	750.30	786.81
Public Health Commission	58.58	60.92
School Department	646.10	672.40
Reserve for Collective Bargaining	17.00	0.00
 Total Appropriations	 1,471.99	 1,520.13
 Pensions	 135.11	 147.25
Debt Service	126.57	129.75
State Assessments	69.53	70.57
Suffolk County Sheriff	3.55	4.67
Reserve	0.00	0.00
 Total Fixed Costs	 334.76	 352.24
 Total Expenditures	 1,806.75	 1,872.37
 Surplus (Deficit)	 0.00	 (52.18)

Numbers may not add due to rounding



City Council Orders

City Council Orders Filed by the Mayor

Operating Budget Orders:

- Appropriation and Tax Order for the Fiscal Year 2004
- Appropriation Order for the Boston Public Schools for Fiscal Year 2004

Capital Plan Orders:

- Five loan orders authorized under the provisions of Section 7 of Chapter 44 of the General Laws:
 1. Clause (4) Bridge Construction / Reconstruction
 2. Clause (5) Public Ways Construction / Extension / Widening
 3. Clause (9) Departmental Equipment – Management Information Services Department
 4. Clause (25) Acquisition Of Land; Outdoor Recreational and Athletic Facilities
 5. Clause (28) Computer Hardware – School Department
- Two loan orders authorized under the provisions of Clause (3A) of Section 7 of Chapter 44 of the General Laws, and/or Chapter 642 of the Acts of 1966, as amended:
 1. Construction, improvements, remodeling, reconstruction or repairs for Various Departments.
 2. Construction, improvements, remodeling, reconstruction or repairs for the School Department.
- One loan order authorized under the provisions of Clauses (3) and (3A) of Section 7 of Chapter 44 of the General Laws, and/or Chapter 642 of the Acts of 1966, as amended, and/or Chapter 70B:
 1. Construction, improvements, remodeling, reconstruction or repairs for the School Department.

CITY OF BOSTON
JUL 1 2004
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**CITY OF BOSTON
IN CITY COUNCIL**

**Appropriation and Tax Order for the fiscal year
Commencing July 1, 2003 and ending June 30, 2004**

ORDERED:

I. That to meet the current expenses of the City of Boston and the County of Suffolk, in the fiscal year commencing July 1, 2003 and ending June 30, 2004, the respective sums of money specified in the schedules hereinafter set out, be, and the same hereby are, appropriated for expenditure under the direction of the respective boards and officers severally specified, for the several specific purposes hereinafter designated and, except for transfers lawfully made, for such purposes only said appropriations, to the extent they are for the maintenance and operation of parking meters, and the regulation of parking and other activities incident thereto (which is hereby determined to be \$10,000,000), being made out of the income from parking meters and, to the extent they are for other purposes, being made out of the proceeds from the sale of tax title possessions and receipts from tax title redemptions in addition to the total real and personal property taxes of prior years collected from July 1, 2002 up to and including March 31, 2003, as certified by the City Auditor under Section 23 of Chapter 59 of the General Laws, and out of available funds on hand July 1, 2003 (which is hereby determined by the City Auditor to be not less than \$25,000,000), provided said sum is certified by the Director of Accounts under said Section 23, and the proceeds from the sale of surplus property to be transferred in an amount not to exceed \$4,876,000 pursuant to the provisions of Section 24 of Chapter 190 of the Acts of 1982 as amended by Section 4 of Chapter 701 of the Acts of 1986, and the balance of said appropriations to be raised by taxation pursuant to Section 23 of Chapter 59 of the General Laws:

CITY DEPARTMENTS		Personnel Services	Contractual Services	Supplies & Materials	Current Charges & Obligations	Equipment	Special Appropriation	Structures & Improvements	Land Non-Structural Improvement	Total
Mayor's Office										
111	Mayor's Office	1,254,455	125,500	43,300	8,900	0	0	0	0	1,432,155
113	Office of New Bostonians	77,978	0	0	0	0	0	0	0	77,978
150	Intergovernmental Relations	581,176	173,652	1,000	136,924	0	0	0	0	892,752
151	Law Department	2,804,992	1,550,708	50,200	119,300	20,000	0	0	0	4,545,200
411	Public Information	838,275	20,000	13,798	3,200	0	0	0	0	875,273
412	Neighborhood Services	871,914	69,300	27,600	0	0	0	0	0	968,814
Chief Operating Officer										
110	Library Department	17,113,668	4,665,864	1,636,732	233,481	331,596	0	0	0	23,981,341
114	Consumer Affairs & Licensing	334,919	18,000	9,000	1,475	0	0	0	0	363,394
142	Human Resources	2,357,621	86,420	26,900	76,255	0	0	0	0	2,547,196
144	Chief Operating Officer	741,244	110,620	5,000	500	2,500	0	0	0	859,864
145	Graphic Arts Department	1,116,237	184,293	7,700	1,400	0	66,000	0	0	1,375,630
147	Labor Relations	697,750	176,539	5,800	17,900	0	0	0	0	897,989
148	Health Insurance	0	0	0	125,372,228	0	0	0	0	125,372,228
149	Management & Information Svs	7,366,474	2,760,841	103,550	2,794,266	200,146	0	0	0	13,225,277
163	Registry Division	676,948	52,764	10,000	950	750	0	0	0	741,412
199	Unemployment Compensation	250,000	0	0	0	0	0	0	0	250,000
341	Workers' Compensation Fund	0	0	0	0	0	2,200,000	0	0	2,200,000
Chief Financial Officer										
131	Auditing Department	1,727,494	61,679	13,900	6,450	0	0	0	0	1,809,523
136	Assessing Department	4,660,897	369,000	58,750	56,600	0	0	0	0	5,145,247
137, 138	Treasury Department	2,747,243	171,105	309,600	12,150	10,000	1,000	0	0	3,251,098
139	Medicare Payments	4,100,000	0	0	0	0	0	0	0	4,100,000
141	Budget Management	1,282,748	705,770	8,000	102,200	0	0	0	0	2,098,718
143	Purchasing Division	1,005,960	65,174	12,580	2,084	32,674	0	0	0	1,118,472
333	Execution of Courts	0	0	0	0	0	3,500,000	0	0	3,500,000
374	Pensions & Annuities - City	4,600,000	0	0	0	0	0	0	0	4,600,000
749	Pensions & Annuities - County	300,000	0	0	0	0	0	0	0	300,000
Public Safety										
211	Police Department	185,391,018	10,835,939	6,145,825	3,983,184	3,855,863	0	0	0	210,211,829
221	Fire Department	121,919,474	4,289,928	2,458,450	2,428,267	759,630	0	0	0	131,855,749
Economic Development										
156	Small/Local Business	505,767	30,682	5,000	1,000	0	0	0	0	542,449
157	Boston Residents Job Policy	427,041	828	1,000	250	0	0	0	0	429,119
Basic Services										
121, 128	Election Department	1,794,909	182,300	276,800	91,700	345,520	0	0	0	2,691,229
180	Property & Construction Mgmt	11,849,693	4,944,366	617,858	159,193	106,858	0	0	0	17,677,968
300	Parks & Recreation Department	6,581,190	2,448,885	223,000	475,063	81,824	215,000	0	200,000	10,224,962
415	Special Events & Tourism	471,456	185,100	6,000	0	2,975	244,685	0	0	910,216

CITY DEPARTMENTS		Personnel Services	Contractual Services	Supplies & Materials	Current Charges & Obligations	Equipment	Special Appropriation	Structures & Improvements	Land Non-Structural Improvement	Total
Streets, Transportation & Sanitation										
251,253	Transportation Department	17,366,667	8,288,216	1,287,231	144,603	232,952	0	0	0	27,319,669
311	Public Works Department	15,943,427	55,614,123	678,500	401,073	547,606	0	200,000	0	73,384,729
321	Central Fleet Maintenance	1,378,652	220,000	278,000	15,000	178,634	0	0	0	2,070,286
331	Snow Removal	0	7,500,000	0	0	178,266	0	0	0	7,678,266
Environmental Services										
260	Inspectional Services Dept	11,000,181	1,188,804	197,341	648,875	45,902	0	0	0	13,081,103
303	Environment Department	844,566	54,750	15,000	550	0	0	0	0	914,866
Human Services										
385	Boston Center for Youth & Families	15,015,770	3,061,077	199,322	72,973	55,000	0	0	0	18,404,142
387	Elderly Commission	1,995,077	265,100	123,700	20,090	0	0	0	0	2,403,967
403	Civil Rights	250,990	20,700	5,000	500	0	0	0	0	277,190
406	Emergency Shelter Commission	237,106	281,992	4,000	1,000	0	0	0	0	524,098
417	Women's Commission	137,631	2,125	425	0	0	0	0	0	140,181
448	Youth Fund	205,008	39,100	60,500	17,500	0	3,472,725	0	0	3,794,833
503	Cultural Affairs	458,268	144,250	26,000	5,600	0	0	0	0	634,118
741	Veterans Services Department	774,341	130,617	22,750	2,267,775	3,500	0	0	0	3,198,983
Public Health										
620	Public Health Commission	0	0	0	0	0	58,582,237	0	0	58,582,237
Housing & Neighborhood Devopment										
188	Neighborhood Development	1,127,076	1,015,167	65,358	17,888	44,125	0	0	0	2,269,614
189	Affordable Housing-Leading the Way	0	3,000,000	0	0	0	0	0	0	3,000,000
384	Rental Housing Resource Center	627,415	17,800	1,000	800	0	0	0	0	647,015
Non-Mayoral Departments										
112	City Council	3,500,657	196,000	58,000	28,500	20,500	0	0	0	3,803,657
161	City Clerk	773,219	48,008	8,000	3,950	419	0	0	0	833,596
193	Finance Commission	152,371	4,664	200	2,050	90	0	0	0	159,375
252	Licensing Board	501,904	42,700	7,800	5,925	0	0	0	0	558,329
Other										
158	Risk Retention Reserve	0	0	0	0	0	1,000,000	0	0	1,000,000
999	Reserve for Collective Bargaining	17,000,000	0	0	0	0	0	0	0	17,000,000
TOTAL		475,738,867	115,420,450	15,115,470	139,739,572	7,057,330	69,281,647	200,000	200,000	822,753,336

**CITY OF BOSTON
IN CITY COUNCIL**

FURTHER ORDERED:


II. That to meet so much of the expenses of maintaining, improving and embellishing in the fiscal period commencing July 1, 2003 and ending June 30, 2004, cemeteries owned by the City of Boston, or in its charge, as is not met by the income of deposits for perpetual care on hand December 31, 2002, the respective sum of money specified in the subjoined schedule be, and the same hereby is, appropriated out of the fund set up under Chapter 13 of the Acts of 1961 the same to be expended under the direction of the Commissioner of Parks and Recreation:

400100

Cemetery Division
Parks and Recreation Department
\$1,932,385

In City Council June 26, 2003. Passed.
Approved by the Mayor June 30, 2003.

Attest:

A handwritten signature in cursive script, reading "Rosaria Salerno".

Rosaria Salerno
City Clerk



CITY OF BOSTON • MASSACHUSETTS

OFFICE OF THE MAYOR
THOMAS M. MENINO

June 24, 2003

TO THE CITY COUNCIL

Dear Councilors:

I retransmit herewith an appropriation order for the Boston Public Schools for Fiscal Year 2004, in the amount of \$646,100,000, submitted pursuant to the provisions of Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, as further amended by Chapter 701 of the Acts of 1986, Chapter 613 of the Acts of 1987 and Chapter 108 of the Acts of 1991.

Half of the increase in the City's total resubmitted budget has been allocated to schools, preserving our commitment to public education in the City of Boston through improved teaching and learning that has led to higher student achievement.

In order for the School Department to submit a budget this spring, priorities were examined and very difficult tradeoffs were made. We have made great strides in education over the past decade, and while there are still reductions, I am confident that our schools will preserve the progress and build on it into the future.

The additional resources will help to minimize the impact on all schools throughout the district, allowing for some restoration in school-based budgets, as well as maintaining the reduction in class size that we achieved in recent years. Planning and development periods will be restored at the elementary level and scheduled contract salary increases will occur, meeting our obligation to our teachers and staff.

This budget supports anticipated increases in fixed costs and other obligations, allows for the opening of three new state-of-the-art schools in September, the expansion of Tech Boston Academy, important progress on high school restructuring and small learning communities and the purchase of educational materials for English Language Learners.

Above all, this budget allows us to continue our focus on our educational mission and our resources on efforts to insure that the gains we have made in student achievement continue.

I wish to thank the City Council, the School Committee and particularly the Superintendent who, together with his staff, has worked tirelessly over the past six months at a very difficult task. The strong commitment this City has made to teaching and learning will continue. I respectfully request your support of the Fiscal Year 2004 appropriation for the Boston Public Schools.

Sincerely,

Thomas M. Menino
Mayor of Boston



**CITY OF BOSTON
IN CITY COUNCIL**

ORDERED: That pursuant to Chapter 224 of the Acts of 1936, as amended by Chapter 190 of the Acts of 1982, and as further amended by Chapter 701 of the Acts of 1986, Chapter 613 of the Acts of 1987, and Chapter 108 of the Acts of 1991, to meet the current operating expenses of the School Department in the fiscal period commencing July 1, 2003 and ending June 30, 2004, the sum of SIX HUNDRED FORTY SIX MILLION ONE HUNDRED THOUSAND DOLLARS (\$646,100,000) be, and the same hereby is, appropriated, said sum to be raised by taxation pursuant to Section 23 of Chapter 59 of the General Laws:

Boston School Department \$646,100,000

In City Council June 26, 2003. Passed.
Approved by the Mayor June 30, 2003.

Attest:

A handwritten signature in cursive script that reads "Rosaria Salerno".

Rosaria Salerno
City Clerk

CITY OF BOSTON
IN CITY COUNCIL

Docket: 0556
Program: 1009
SubClass: 10475

ORDERED: That the sum of Three Hundred Five Thousand Dollars (\$305,000) be, and hereby is, appropriated for the construction or reconstruction of bridges of stone or concrete or of iron superstructure for the purposes of the Public Works Department; and that to meet said appropriation the Collector/Treasurer be, and hereby is, authorized under the provisions of Clause (4) of Section 7 of Chapter 44 of the General Laws, to issue from time to time, with the approval of the Mayor, bonds, notes or certificates of indebtedness of the City up to said amount, provided that the appropriation authorized through this order be expended only on those project(s) as described by name attached herein.

In City Council June 4, 2003. Read once and passed, yeas 12, nays 0.

In City Council June 26, 2003. Read a second time and again passed, yeas 13.

Approved by the Mayor July 9, 2003, he certifying on the original order that the foregoing loan order in not, in his opinion, to meet a current expense.

Attest:



Rosaria Salerno
City Clerk

July 30, 2003

I hereby certify that no petition, asking that the question of approving or disapproving the foregoing order be submitted to the voters, was filed with the City Clerk within twenty days from July 9, 2003, and the order therefore become effective on July 30, 2003 in accordance with the provisions of Chapter 108 of the Acts of 1939.

Attest:



Rosaria Salerno
City Clerk

FY04 Capital Council Order Attachment

1. Bridge Engineering Overview FY04

CITY OF BOSTON
IN CITY COUNCIL

Docket: 0557
Program: 1010
SubClass: 10471

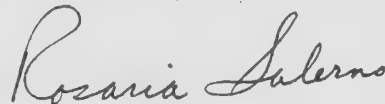
ORDERED: That the sum of Three Million Two Hundred Eighty Five Thousand Dollars (\$3,285,000) be, and hereby is, appropriated for the original construction of public ways or the extension or widening thereof, including land damages and the cost of pavement and sidewalks laid at the time of said construction, or for the construction of stone, block, brick, cement concrete, bituminous concrete, bituminous macadam or other permanent pavement of similar lasting character for the purposes of the Public Works Department; and that to meet said appropriation the Collector/Treasurer be, and hereby is, authorized under the provisions of Clause (5) of Section 7 of Chapter 44 of the General Laws, to issue from time to time, with the approval of the Mayor, bonds, notes or certificates of indebtedness of the City up to said amount, provided that the appropriation authorized through this order be expended only on those project(s) as described by name attached herein.

In City Council June 4, 2003. Read once and passed, yeas 12, nays 0.

In City Council June 26, 2003. Read a second time and again passed, yeas 13.

Approved by the Mayor July 7, 2003, he certifying on the original order that the foregoing loan order is not, in his opinion, to meet a current expense.

Attest:

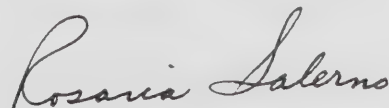


Rosaria Salerno
City Clerk

July 30, 2003

I hereby certify that no petition, asking that the question of approving or disapproving the foregoing order be submitted to the voters, was filed with the City Clerk within twenty days from July 7, 2003, and the order therefore become effective on July 28, 2003 in accordance with the provision of chapter 108 of the Acts of 1039.

Attest:



Rosaria Salerno
City Clerk

FY04 Capital Council Order Attachment

1. Mattahunt Housing Roadways
2. Boylston Street - Street Lights
3. Scollay Square

CITY OF BOSTON
IN CITY COUNCIL

Docket: 0558
Program: 1014
SubClass: 10472

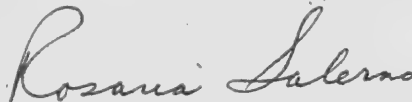
ORDERED: That the sum of Two Hundred Eighty Thousand Dollars (\$280,000) be, and hereby is, appropriated for the cost of departmental equipment for the purposes of the Management Information Services Department; and that to meet said appropriation the Collector/Treasurer be, and hereby is, authorized under the provisions of Clause (9) of Section 7 of Chapter 44 of the General Laws, to issue from time to time, with the approval of the Mayor, bonds, notes or certificates of indebtedness of the City up to said amount, provided that the appropriation authorized through this order be expended only on those project(s) as described by name attached herein.

In City Council June 4, 2003. Read once and passed, yeas 12, nays 0.

In City Council June 26, 2003. Read a second time and again passed, yeas 13.

Approved by the Mayor July 7, 2003, he certifying on the original order that the foregoing loan order is not, in his opinion, to meet a current expense.

Attest:



Rosaria Salerno
City Clerk

July 30, 2003

I hereby certify that no petition, asking that the question of approving or disapproving the foregoing order be submitted to the voters, was filed with the City Clerk within twenty days from July 7, 2003, and the order therefore become effective on July 28, 2003 in accordance with the provision of chapter 108 of the Acts of 1039.

Attest:



Rosaria Salerno
City Clerk

FY04 Capital Council Order Attachment

1. Uninterruptable Power Supply System

CITY OF BOSTON
IN CITY COUNCIL

Docket: 0561
Program: 1029
SubClass: 10473

ORDERED: That the sum of Seven Hundred Ten Thousand Dollars (\$710,000) be, and hereby is, appropriated for the construction of municipal outdoor recreational and athletic facilities, including the acquisition and development of land and the construction and reconstruction of such facilities, for the purposes of the Parks and Recreation Department; and that to meet said appropriation the Collector/Treasurer be, and hereby is, authorized under the provisions of Clause (25) of Section 7 of Chapter 44 of the General Laws, to issue from time to time, with the approval of the Mayor, bonds, notes or certificates of indebtedness of the City up to said amount, provided that the appropriation authorized through this order be expended only on those project(s) as described by name attached herein.

In City Council June 4, 2003. Read once and passed, yeas 12, nays 0.

In City Council June 26, 2003. Read a second time and again passed, yeas 13.

Approved by the Mayor July 7, 2003, he certifying on the original order that the foregoing loan order is not, in his opinion, to meet a current expense.

Attest:

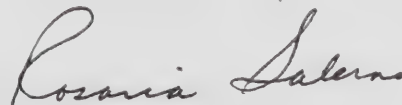


Rosaria Salerno
City Clerk

July 30, 2003

I hereby certify that no petition, asking that the question of approving or disapproving the foregoing order be submitted to the voters, was filed with the City Clerk within twenty days from July 7, 2003, and the order therefore become effective on July 28, 2003 in accordance with the provision of chapter 108 of the Acts of 1039.

Attest:



Rosaria Salerno
City Clerk

FY04 Capital Council Order Attachment

1. Madison Park Field
2. Muddy River Phase II

CITY OF BOSTON
IN CITY COUNCIL

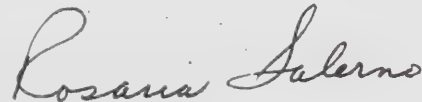
ORDERED: That the sum of Five Hundred Five Thousand Dollars (\$505,000) be, and hereby is, appropriated for the development, design, purchase, installation and operation of computer hardware, other data processing equipment and computer assisted integrated financial management and accounting systems, for the purpose of the School Department; and that to meet said appropriation the Collector/Treasurer be, and hereby is, authorized under the provisions of Clause (28) of Section 7 of Chapter 44 of the General Laws, to issue from time to time, with the approval of the Mayor, bonds, notes or certificates of indebtedness of the City up to said amount, provided that the appropriation authorized through this order be expended only on those project(s) as described by name attached herein.

In City Council June 4, 2003. Read once and passed, yeas 12, nays 0.

In City Council June 26, 2003. Read a second time and again passed, yeas 13.

Approved by the Mayor July 7, 2003, he certifying on the original order that the foregoing loan order is not, in his opinion, to meet a current expense.

Attest:

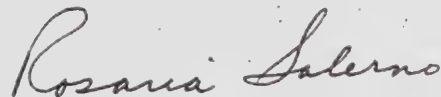


Rosaria Salerno
City Clerk

July 30, 2003

I hereby certify that no petition, asking that the question of approving or disapproving the foregoing order be submitted to the voters, was filed with the City Clerk within twenty days from July 7, 2003, and the order therefore become effective on July 28, 2003 in accordance with the provision of chapter 108 of the Acts of 1039.

Attest:



Rosaria Salerno
City Clerk

FY04 Capital Council Order Attachment

1. Computer Technology FY04

CITY OF BOSTON
IN CITY COUNCIL

Docket: 0559
Program: 1007 &/or 1070
SubClass: 10469

ORDERED: That the sum of Sixteen Million Two Hundred Twenty Thousand Dollars (\$16,220,000) be, and hereby is, appropriated for constructing and originally equipping structures and facilities and for remodeling, reconstructing, making extraordinary repairs and/or major alterations and additions to existing facilities including original equipment, landscaping, planting of shade trees, paving and other site improvements incidental or directly related to such remodeling, reconstruction or repair for the purposes of the Boston Center for Youth and Families, Fire, Library, Property and Construction Management, Public Health Commission and Public Works Departments; and that to meet said appropriation the Collector/Treasurer be, and hereby is, authorized under the provisions of Clause (3A) of Section 7 of Chapter 44 of the General Laws or under the provisions of Chapter 642 of the Acts of 1966, as amended, to issue from time to time, with the approval of the Mayor, bonds, notes or certificates of indebtedness of the City up to said amount, provided that the appropriation authorized through this order be expended only on those project(s) as described by name attached herein.

In City Council June 4, 2003. Read once and passed, yeas 12, nays 0.

In City Council June 26, 2003. Read a second time and again passed, yeas 13.

Approved by the Mayor July 7, 2003, he certifying on the original order that the foregoing loan order is not, in his opinion, to meet a current expense.

Attest:

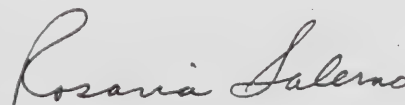


Rosaria Salerno
City Clerk

July 30, 2003

I hereby certify that no petition, asking that the question of approving or disapproving the foregoing order be submitted to the voters, was filed with the City Clerk within twenty days from July 7, 2003, and the order therefore become effective on July 28, 2003 in accordance with the provision of chapter 108 of the Acts of 1939.

Attest:



Rosaria Salerno

FY04 Capital Council Order Attachment

1. Mason Pool
2. Apron/Slab Engineering Assessment
3. Boiler Replacement
4. Critical Facility Repairs FY04
5. Engine 37 Bathroom
6. Fire Training Academy Burn Building
7. Roof Replacement
8. Critical Facility Repairs FY04
9. Johnson Building Fire Alarm Upgrade
10. Rare Books Climate Control System
11. City Hall Fire Safety
12. Critical Facility Repairs FY04
13. Great Hall at Codman Square
14. Uphams Corner Municipal Building
15. Critical Facility Repairs FY04
16. Long Island Boiler Replacement
17. South Block Power Plant Building Roof Replacement
18. Central Maintenance Facility Fire Alarm

CITY OF BOSTON
IN CITY COUNCIL

Docket: 0560
Program: 1007 &/or 1070
SubClass: 10470

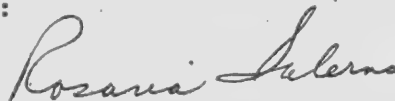
ORDERED: That the sum of Twenty Seven Million Two Hundred Twenty Five Thousand Dollars (\$27,225,000) be, and hereby is, appropriated for constructing and originally equipping structures and facilities and for remodeling, reconstructing, making extraordinary repairs and/or major alterations and additions to existing facilities including original equipment, landscaping, planting of shade trees, paving and other site improvements incidental or directly related to such remodeling, reconstruction or repair for the purposes of the School Department; and that to meet said appropriation the Collector/Treasurer be, and hereby is, authorized under the provisions of Clause (3A) of Section 7 of Chapter 44 of the General Laws or under the provisions of Chapter 642 of the Acts of 1966, as amended, to issue from time to time, with the approval of the Mayor, bonds, notes or certificates of indebtedness of the City up to said amount, provided that the appropriation authorized through this order be expended only on those project(s) as described by name attached herein.

In City Council June 4, 2003. Read once and passed, yeas 12, nays 0.

In City Council June 26, 2003. Read a second time and again passed, yeas 13.

Approved by the Mayor July 7, 2003, he certifying on the original order that the foregoing loan order is not, in his opinion, to meet a current expense.

Attest:

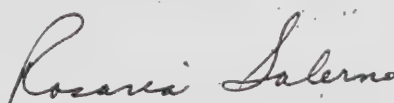


Rosaria Salerno
City Clerk

July 30, 2003

I hereby certify that no petition, asking that the question of approving or disapproving the foregoing order be submitted to the voters, was filed with the City Clerk within twenty days from July 7, 2003, and the order therefore become effective on July 28, 2003 in accordance with the provision of chapter 108 of the Acts of 1039.

Attest:



Rosaria Salerno
City Clerk

FY04 Capital Council Order Attachment

1. Cleveland School HVAC
2. Critical Facility Repairs FY03-FY04
3. Door Replacement at 3 Schools
4. Dorchester High School
5. Fire Alarm Replacement at 13 Schools
6. Fire Alarm Replacement at 7 Schools
7. Fire Escapes at 20 Schools
8. Hamilton School Boiler
9. Lewenberg School
10. Madison Park High School
11. Madison Park High School HVAC
12. Masonry Repairs at 20 Schools
13. Masonry Repairs at 7 Schools
14. McKay School
15. O'Bryant School
16. Robert Shaw School
17. Robert Shaw School Roof
18. Roof Replacement at 10 Schools
19. Tynan School
20. Umana Barnes School
21. Wheatley School

CITY OF BOSTON
IN CITY COUNCIL

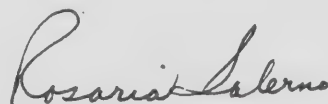
Docket: 0826
Program: 1006, 1007, 1066
SubClass: 10476

ORDERED: That the sum of Twenty Four Million Forty Thousand Dollars (\$24,040,000) be, and hereby is, appropriated for a school project, including the planning, designing, acquiring land for, constructing and originally equipping structures and facilities and for remodeling, reconstructing, or making major alterations, additions and major repairs to existing facilities including original equipment and landscaping, planting of shade trees, paving and other site improvements incidental or directly related to such remodeling, reconstruction or repair for the purposes of the School Department; and that to meet said appropriation the Collector/Treasurer be, and hereby is, authorized under the provisions of Clauses (3) and/or (3A) of Section 7 of Chapter 44 of the General Laws, or under the provisions of Chapter 70B, as amended, or under the provisions of Chapter 642 of the Acts of 1966, as amended, to issue from time to time, on request of the Mayor, bonds, notes or certificates of indebtedness of the City up to said amount, provided that the appropriation authorized through this order be expended only on those project(s) as described by name attached herein.

In City Council June 4, 2003. Read once and passed, yeas 13.
In City Council June 25, 2003. Read a second time and again passed, yeas 13.

Approved by the Mayor July 14, 2003, he certifying on the original order that the foregoing loan order is not, in his opinion, to meet a current expense.

Attest:



Rosaria Salerno
City Clerk

August 4, 2003

I hereby certify that no petition, asking that the question of approving or disapproving the foregoing order be submitted to the voters, was filed with the City Clerk within twenty days from July 14, 2003, and the order therefore becomes effective on August 4, 2003 in accordance with the provisions of Chapter 108 of the Acts of 1039.

Attest:



Rosaria Salerno
City Clerk

FY04 Capital Council Order Attachment

School Department

1. Burke High School



Revenue Estimates and Analysis

Revenue Estimates and Analysis

OVERVIEW

The FY04 Budget is supported with \$1.777 billion in recurring revenue, a decrease of \$9.2 million, or 0.5%, from the FY03 Budget adjusted for mid-year state aid reductions (excluding non-recurring revenue). The budget also includes \$4.9 million in non-recurring revenue and \$25.0 million from budgetary fund balance, yielding total revenue of \$1.807 billion, an increase of \$5.8 million, or 0.3% from FY03.

FY04 will represent the second year of recurring revenue decline – the first being FY03 after mid-year reductions in state aid – after nine straight years of revenue growth (Figure 1.) The largest portion of the FY04 decline is attributable to another reduction in state aid from the Commonwealth. The FY03 and FY04 reductions in revenue directly attributable to state aid together total nearly \$100 million and roughly equal the four-year total reduction of the early 1990's, the last time local aid from the Commonwealth was substantially reduced.

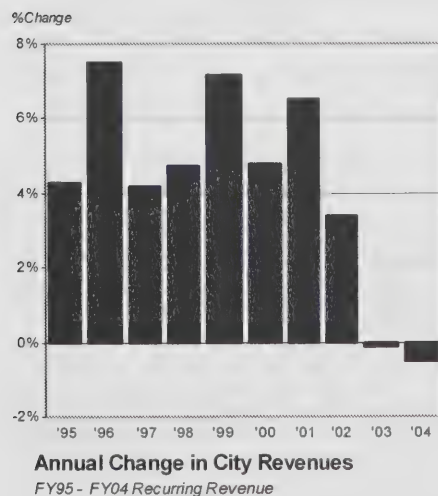
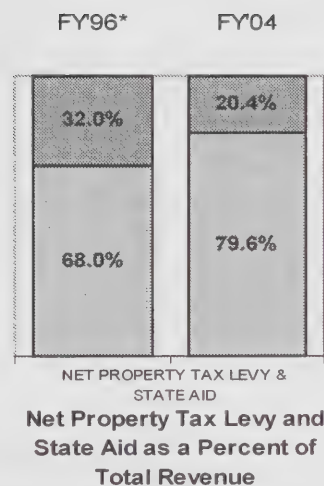


Figure 1

This chapter begins with a review of national and state economic trends that have and will continue to impact Boston in FY04 and beyond. It is



*Includes DHH

Figure 2

followed by an analysis of recent state budget trends and state aid, the City's second largest revenue source. Finally, a detailed discussion of the property tax levy, the City's largest revenue source, is presented along with other City revenues. Net property tax and state aid together make up 79.6% of total City revenues and their stability is of critical importance in determining the City's ability to deliver quality services while maintaining fiscal stability and a balanced budget (Figure 2.).

THE NATION

The United States economy is showing some signs of a slow recovery after a recession that began in March 2001 and ended in November 2001. The recession may prove to be one of the mildest on record, lasting only eight months, it is tied with the 1990-1991 and 1860-1861 recessions for the shortest duration in recorded history. But the uncertainty and economic fallout perpetuated by terrorism warnings, a fluctuating stock market, corporate accounting scandals, and more recently, the war with Iraq and the subsequent occupation of that nation by U.S. forces, and continued tensions with North Korea, have continued a crisis

of confidence that has prevented any solid acceleration in economic growth.

The retrenchment of the economy following the longest expansion in United States history had been less traumatic than expected with businesses quickly liquidating excess inventories, historically mild unemployment and consumer spending holding up through low interest rates and non-existent inflation.

However, the resumption of business spending to a level necessary to stimulate labor markets that in turn will allow continued consumer spending has not yet materialized. And, as foreign demand continues to wane despite a weak dollar abroad and manufacturers face a glut of excess capacity, it is unlikely that business spending will resume steady growth in the near future.

As a consequence, it seems unlikely that this anemic recovery will accelerate to steady growth until geopolitical issues subside and other national economies strengthen the U.S. export market. A drawn out engagement in Iraq or a conflict on the Korean Peninsula, under the current economic circumstances, could produce another contraction.

Currently the Federal Reserve is maintaining an accommodative and stimulatory Federal Funds Rate at the June 2003, 41 year low of 1.00%, after a 25 basis point reduction. The Federal Reserve has stated it will continue to use monetary policy to

encourage economic expansion or thwart contraction. Since January 2001, the Federal Funds and Discount Rates have been cut thirteen times and by 550 basis points in total.

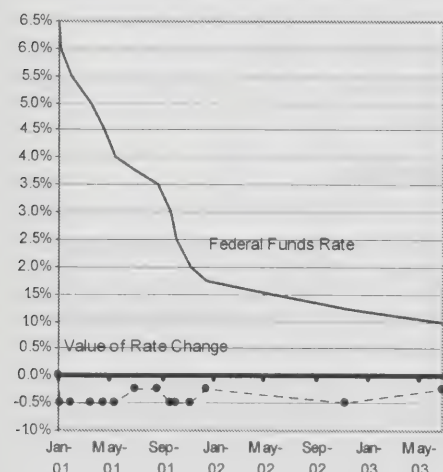
The Federal Open Market Committee (FOMC) recently judged that the risks to sustainable economic growth are in balance. Currently, traders at the Chicago Board of Trade's Fed Funds Futures Market are pricing in a 0% probability of a 25 basis point Federal Funds rate decrease at the August 12, 2003, FOMC meeting. In fact, traders do not anticipate any FOMC action until it raises rates in the first quarter 2004.

Lower interest rates speed the economy by making money cheaper to borrow for purchases such as consumer durable goods and homes. Some evidence of effective monetary policy can be seen in the past two years of historically low interest rates that have spurred record car sales, home sales and home refinancings, this in spite of continued slack labor market conditions and the recent loss of stock market wealth.

The monthly average conventional 30-year fixed-rate mortgage fell to a new record low 4.96% in May 2003, down from 6.61% a year earlier and below the previous 30-year low of 5.40% in April 2003. Mortgage rates have continued to fall due to a falling Federal Funds rate and a run-up in mortgage backed bonds fueled by investors fleeing the stock market. Mortgage rates are expected to rise throughout the remainder 2003 and 2004 as the stock market and economy slowly recover, inflationary price pressure builds, and mortgage defaults increase.

Mortgage refinancings, which have fueled a great deal of consumer spending through "cash-out" refinancings, had slowed but are booming again recently as mortgage rates that had been historically low, fell even lower, drawing those who had refinanced before back again. The proportion of refinancings with a "cash-out" component is dwindling, however, as there is less equity to be drawn from home values, due partially to slowing appreciation and partially to the level of "cash-out" refinancing that has already occurred. Therefore, the positive effect on consumer spending is likely to be muted compared to previous booms.

The housing market, which likely kept the nation out of a deeper recession, should slow late in 2003,

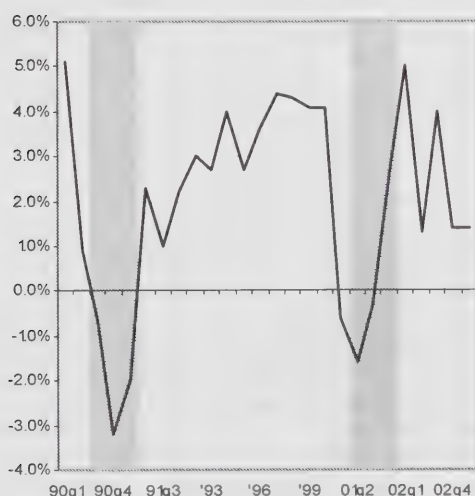


Federal Funds Rate and Changes
January 2001 - June 2003

Figure 3

as should consumer spending on big-ticket, durable goods, as pent-up demand has been expelled and interest rates rise to offset price pressure and support the value of the U.S. dollar abroad. But the housing market should remain healthy enough, if less appreciable, for the foreseeable future.

Real gross domestic product (GDP) grew at 1.4% in the first quarter of 2003, even with the fourth quarter of 2002, and sharply down from 4.0% in the third quarter of 2002. Much of this recent volatility can be attributed to automobile sales. Real GDP is expected to increase at a reasonable pace over the course of 2003 and into 2004. Current Federal Reserve estimates range from 3.00% to 3.75% annual growth by the end of 2003 after growth of 2.4% in 2002 (Figure 4).



Real Gross Domestic Product Growth
1990-2003q1 and NBER Dated Recessions

Figure 4

The seasonally adjusted unemployment rate in the U.S. was 6.1% in May 2003, up from 5.8% a year earlier and slightly up from 6.0% in December 2002 (Figure 5). According to Federal Reserve forecasts, the unemployment rate is expected to decline from this level, ending the year between 5.75% and 6.0%, as businesses seek to return to profitability by way of continued productivity from current employees in the short term and by utilizing excess productive capacity in the longer term.

The U.S. consumer price index for all urban consumers (CPI-U) rose 3.0% in the year ending February 2003, up sharply from 1.1% for the year

ending February 2002. The "core" rate of inflation, all items less food and fuel, slowed over the same time period to 1.9% growth from 2.6% the prior year. This moderate price pressure is evidence of the lack of pricing power businesses have over consumers as businesses continue to draw down inventories. This fact also serves as an indicator of corporate profits, which have also remained weak for sometime now.

Due to the recent poor health of the national economy, recent tax cuts and military action in the Middle East, the Federal Government expects to close FY03 (ending September 30, 2003) in deficit as in FY02. Given this, the anemic economic recovery, and the ambiguous projections of when balanced budgets or surpluses will return, the states should worry about less federal funds coming in the next year and possibly the following years until the economy fully recovers, spending priorities shift, and federal revenues stabilize.

THE COMMONWEALTH

The Massachusetts economy boomed in 2000. According to the Bureau of Economic Analysis (BEA), Massachusetts' real Gross State Product (GSP) ranked seventh among the fifty states in 2000 at 7.1% annual growth. Growth in the top ten states accounted for nearly 52% of GSP growth nationwide that year. BEA attributes much of the growth in the top Northeast states to strength in the Finance, Insurance and Real Estate, and Services sectors.

The decline in economic growth in Massachusetts that has followed during this recession has been both better and worse than of the previous recession. For the better, is the absence of specific regional economic hindrances that weighed heavily on the state in the 1990's. Such things as strong house price appreciation are having a positive effect during this recession by using that higher than average appreciation to keep consumer spending afloat throughout the downturn and, a lower reliance on manufacturing industries hit hard nationally by excessive inventories and lack of pricing power. For the worse, is that the Massachusetts economy grew in 1990's through many businesses in the telecommunications, services and, specifically, financial services sectors. These sectors were greatly affected by the bursting internet-stock bubble.

The bursting internet-stock market bubble greatly affected Massachusetts's income tax collections as well. For example, collections from wage and salary withholding taxes fell \$600 million in FY02, while overall income tax from all sources fell nearly \$2 billion. This demonstrates that not only have taxable incomes fallen as a result of job losses, but also due to massive losses in investment income as well. It should be noted that several income related state tax cuts were still phasing in during this period, further exacerbating the decline in revenue. More detail on state tax cuts is provided further in this chapter.

Massachusetts' seasonally adjusted total personal income grew by 2.4% in the first quarter of 2003 over first quarter 2002 after declining 1.2% from the first quarter of 2001. This is positive but still fairly weak growth when compared to 2000 when annual personal income growth was over 11% in Massachusetts. Earnings growth by industry over the same first quarter time period were strongest in Military, Finance, Educational Services, and Insurance and Real Estate, growing 12.3%, 11.6% and 8.6%, respectively. Earnings in Durable Goods Manufacturing and Information continued to decline at rates of 5.6% and 5.5%, after falling 11.3% and 13.8% from first quarter 2001 to the same quarter 2002.

Employment in Massachusetts continues to decline sharply as seasonally adjusted non-farm payrolls showed a loss of 42,500 jobs in May 2003, or 1.3% from the prior May, for a cumulative loss of 155,400 jobs or 4.6% since peak employment of January 2001 at 3,370,900 jobs. According to the Center for Labor Market Studies at Northeastern University, this is currently the highest proportion of jobs lost in any state in the nation.

The employment outlook is bleak as well. Forecasts for Massachusetts from Economy.com project continued employment losses in the first half of 2003 with a small increase in the second half and even then, not enough growth to end the year with a gain over 2002. The seasonally adjusted unemployment rate for May 2003 was 5.6%, up from 5.1% in May 2002, both of which are well above the ten-year low of 2.5% in October 2000 (Figure 5).

After peaking in the fall of 2002, the state seems to have lost some momentum in building activity. An index of the value of construction projects fell 31.7% in March 2003 after rising 22.6% in March 2001. The residential component (seasonally adjusted) declined modestly, falling 9.6% in March 2003 after rising 25.6% in March 2002 from March 2001. The non-residential component fell sharply, declining 28.7% in March 2003 after dropping only 1% in March 2002 from March 2001. It seems clear that the strength in building contracts reflects the slowing of the tight state housing market, and the weakness, business reluctance to invest in large projects.

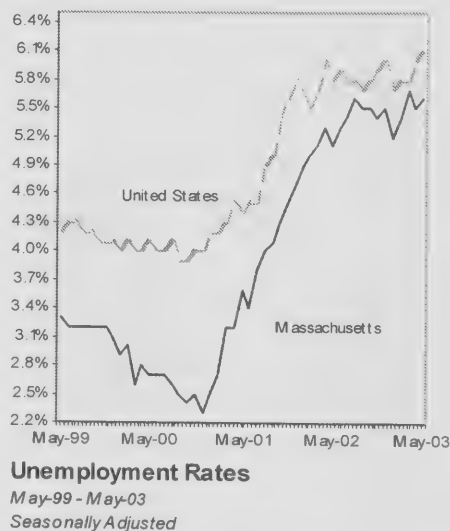


Figure 5

While low interest rates and continued demand for homes has kept residential building strong, the extent of pent-up demand for housing, as interest rates rise and unemployment lingers through the coming year, is likely near exhaustion. This could mean a pronounced slowing of residential construction until wage growth returns to form a new steady demand for housing (see *Boston's People & Economy* section of Volume I for detail on Boston's economy.).

THE COMMONWEALTH BUDGET

In the last nine years prior to FY03, the Commonwealth had been successful in balancing its budget, giving it the capacity to support an adequate and diversified local revenue base for municipalities. Recently, due to the national

economic recession, the corresponding drop in state tax revenues left the state in need of making program reductions, drawing on reserves, increasing taxes and freezing tax cuts already enacted, and reducing local aid. Municipalities received reductions in FY03 local aid in July 2002 by way of gubernatorial veto of certain line items, then in the fall with cuts to grant accounts, and once again in the winter when the legislature granted the new Governor temporary control over large local aid accounts in order to offset a projected deficit in the current year.

The state is currently formulating an FY04 Budget amid ever-rising costs pitted against a stagnated tax base. In January, the Governor released a budget plan that included massive change to the funding of local aid accounts and restructured state government in myriad ways in order to achieve balance. There was some controversy as to whether the Governor's plan could in fact eliminate a projected \$2.5 to \$3.0 billion structural deficit in FY04 without raising taxes or affecting core services. The legislature committed to work quickly to produce a plan of its own. The House budget was released April 23, and the Senate budget in early May. The Conference Committee Budget, the compromise between the houses of the Legislature, was sent to the Governor June 20th.

The state aid portion of the City's budget resembles the House and Senate Ways and Means Conference Committee's estimate of funds available for local aid. The Conference Committee Report will now be passed to the Governor for any vetoes and then returned to the Legislature for any veto overrides before finally being enacted as the state budget.

The possibility of gubernatorial vetoes and the difficulty of sustaining veto overrides forced the City to take a conservative view of the possible local aid in its budget. The City also sees the need to seek alternative, more diversified revenue sources, the need for which is only magnified by the current economic recession and reduced local aid. To that end, the City has proposed several legislative changes to allow municipalities to generate more own source revenue.

Specifically, the Mayor filed legislation to enact a 1% local option tax on prepared food and beverages sold in municipalities in addition to the

5% state tax already in place. If the Legislature were to enact this legislation and the City Council adopted it, the City could recover an estimated \$17 million annually. A meals tax is a good fit for what has become a strong tourist and travel economy in Boston. It would provide revenue growth at a nominal rate without a heavy burden on residents, tourists or travelers with the total rate of taxation remaining one of the lowest of any major City.

Additionally, the Mayor filed legislation to enact local option taxes on parking in commercial parking lots and on entertainment services such as concerts, sporting events and movies. The City, like other regional urban centers, expends considerable resources in traffic, police, fire and public works services in support of these businesses. But unlike other cities, Boston does not have any taxing authority to recover those costs. Together, these local option taxes could generate \$22 million annually.

Lastly, the City will seek to raise several smaller fees that have been level for years for a nominal amount of revenue.

Since nearly all of these revenue initiatives require approval from another political body, their passage is not assured. The City will be closely watching deliberations on these matters of critical importance and will continually stress the importance of a diversified and equitable revenue system.

The Commonwealth has tended to build its budgets cautiously the last several years by being relatively conservative in its revenue estimates. This caution has been rewarded through the accumulation of reserves that has allowed the state more options in dealing with the current revenue shortfall than those of the past. The state has nearly exhausted those reserves in the current fiscal year and debate continues over whether tax increases will be needed in the coming year.

With the Commonwealth running large budget surpluses over the past few years, tax cuts occurred in rapid succession. In July 1998, the Legislature and the Governor worked out a tax cut that included a doubling of the personal exemption and a reduction in the unearned income tax rate from 12% to 5.95%. In the FY00 Budget, the Governor signed into law a reduction of the earned income tax rate from 5.95% to 5.75%

over three tax years. The Governor's FY01 Budget recommended a reduction in the tax rate on earned income and the interest and dividend components of unearned income to 5.0% over three tax years, which was later passed by referendum in November of 2000. The FY02 Budget included the above rate cut and some smaller targeted tax cuts taking effect in tax year 2001 such as: a refundable local property tax credit for low income senior citizens, an increase in the residential rental deduction, a new deduction for charitable donations, and a credit for developers of low income housing. The Governor's FY03 Budget included the continuation of the voter-approved income tax rate reduction to 5.0% valued at \$452 million in FY03.

In FY03, the legislature voted to accept a tax package, valued at \$1.14 billion by the Massachusetts Taxpayers Foundation, that included a freeze of the income tax rate at 5.3% (\$215 million), reducing the personal exemption by 25% (\$240 million) repeal of the charitable donations deduction (\$190 million), an increase in capital gains taxes (\$275 million), and a \$0.75 increase in the cigarette tax (\$220 million) along with other increases to fees for various licenses. The Governor vetoed these tax increases but enough support existed for a legislative override of that veto.

Even with the enacted tax increases, the FY03 budget has been reduced several times during the course of the year as revenues failed to meet estimates. Until recently, most reductions fell on executive branch agencies or grant accounts where the governor has the power to cut unilaterally. In January, the new governor sought from the legislature temporary power to reduce local aid accounts normally under legislative control. The legislature granted this temporary power and local aid for the current year was reduced by \$114 million statewide.

The Governor's FY04 proposed budget of \$22.86 billion is an increase of about 0.6% over FY03 projected spending. As mentioned above, the budget relies on drastic changes in state government organization and local aid to municipalities in order to balance. State government would be changed by consolidations within public higher education, the court system, and transportation. Local Aid would be changed

by eliminating additional assistance, consolidating education grants and other school funding into Chapter 70 education aid, increasing payments for state-owned land, and instituting a one-year "Transitional Mitigation Aid" account to lessen the immediate impact of these changes. Overall, Local Aid would be reduced statewide by at least another \$232 million.

STATE LOCAL AID

In FY03, the Commonwealth's annual expenditure for direct local aid statewide was substantially reduced twice. The first statewide reduction of a net \$32 million dollars occurred in late July 2002, one full month into the fiscal year, and mostly as a result of vetoes by the Governor. The second reduction of \$114 million occurred in January 2003, as a result of the Legislature granting the new Governor temporary power to make unilateral reductions to local aid accounts.

In the decade prior to FY03, Commonwealth officials, driven by practical considerations and availability of resources, reinstated increases in local aid in the form of aid earmarked for education. This period of increases followed three years of significant local aid reductions, which played a key role in the Commonwealth's return to a balanced budget after the last economic recession. The Commonwealth's annual expenditure for direct local aid statewide has increased from \$2.32 billion in FY92 to \$5.02 billion in FY03, an increase of 116%.

From FY92 to FY03, Boston's local aid (net of reimbursement for teacher's pensions) increased 36.9%. The remainder of this section looks at Boston's experience with local aid in detail.

Local aid refers primarily to distributions from the Commonwealth to municipal general revenue for Chapter 70 education aid, additional assistance and lottery aid. The amount of these funds to be distributed is listed on each community's cherry sheet (a listing of a city or town's local aid that is printed on cherry-colored paper) along with other relatively smaller Commonwealth programs such as library aid, school construction, transportation and other reimbursements, and highway funds. As mentioned above, due to state revenue shortfalls in FY03 and a projected shortfall in FY04, there is virtual certainty that local aid will be drastically reduced in order to balance the budget.

Therefore, the City has taken a conservative approach based on available information to budget local aid. The City received local aid from the Commonwealth totaling \$483.8 million in FY01, \$496.1 million in FY02, and has a budget of \$449.9 million in FY03. The City expects \$404.1 million of local aid in FY04.

Since FY82, there have been three distinct phases in state local aid funding policy. From FY82 through FY89, local aid policy was essentially a revenue sharing response to Proposition 2 1/2, the statewide cap on local property tax rates and levies. A reasonable annual increase in local aid became an essential component in the financial planning for municipalities. The distribution between municipalities was based upon a relative measure of balance between local needs and local resources, and the revenue was distributed both in the Chapter 70 and additional assistance line items.

This phase was followed by significant state aid reductions to the same line items that were affected during the FY90, FY91 and FY92 budgets. During this period, the governor and the legislature sharply reduced state revenue sharing with cities, towns, and regional school districts in order to help balance the state budget. Between FY89 and FY92, statewide cherry sheet aid declined \$639 million or 21.5% while all other state spending increased by \$1.5 billion or 15%.

Beginning in 1993 with the passage of the FY94 state budget, the Commonwealth embarked upon a multi-year commitment to increase and equalize funding for local education in its local aid distributions. During this period, Chapter 70 increased and additional assistance remained frozen. In general, state local aid during the FY94-FY03 period has been less favorable for Boston than the revenue sharing arrangement during the FY83-FY89 period. To illustrate, the City's total state aid between FY92 and FY03 grew \$121 million or 36.9%, while its total state aid between FY82 and FY89 increased by \$215 million or 111%. The City's expected FY04 state aid decrease of 10% across most accounts amounts to a reduction of \$45.8 million or 10.2% from FY03 when factoring in increased charter school tuition. FY04 local aid to Boston represents an overall decrease to the FY98 level of local aid to the City.

The expected state budget for FY04 reduces education aid by 2.5% from FY03. The City received Chapter 70 education aid totaling \$197.5 million in FY01 and \$205.6 million in FY02 and \$205.6 million in FY03. The City expects to receive \$200.5 million in FY04. FY00 was the last year of the statutorily established funding schedule for education reform. There has yet to be established a post-FY00 funding schedule. A vital component in the City's delivery of quality public education in the near-term is strong financial support from the Commonwealth.

A key component of the Commonwealth's education reform effort is charter schools. The current educational aid is delivered in tandem with state-mandated costs for charter schools. Charter schools, which are granted charters by the State Board of Education, are publicly funded schools administered independently from local school committee and teacher union rules and regulations. There are two kinds of charter schools, the Commonwealth charter school and the Horace Mann charter school. The former is a school outside the local public school system and the latter is part or all of a school in the public school system. Unlike a Commonwealth charter school, Horace Mann charter school budgets remain part of the public school budget. In addition to the Board of Education, the local school committee and local bargaining agent must approve Horace Mann charter schools.

There are currently fifteen Commonwealth charter schools available to Boston residents. In addition to the Commonwealth charter schools, there are also two Horace Mann charter schools operating in Boston. There are approximately 3,562 Boston resident students currently attending charter schools in FY03 and the City expects that number to grow to approximately 4,288 in FY04.

Before FY99, all charter school tuition was drawn directly from the City's Chapter 70 aid. This draw on the City's education aid totaled \$10.9 million in FY98. Under amendments to the charter school law, the Commonwealth, subject to appropriation, will pay to the City as reimbursement for Chapter 70 aid reductions 100% of tuition for new charter school students the first year, followed by 60% of tuition and tuition increases the second year, 40% of tuition and tuition increases the third year and 0% thereafter. The net expenditure impact of the charter schools in FY02 was \$18.3 million after an

\$8.3 million reimbursement from the Commonwealth. In FY03, the Commonwealth failed to appropriate funding for the charter school reimbursement, therefore the City has budgeted the full tuition cost of \$35.9 million as the expenditure impact of charter schools in FY03. The Governor's FY04 Budget again fails to fund Charter School tuition reimbursement and the House and Senate Ways and Means Conference Committee Budget includes some funding for the reimbursement but the City has chosen not to budget these funds fearing they will be vetoed and an override of that veto not sustained. Therefore the City estimates the full tuition cost of \$42.1 million to be the expenditure impact in FY04.

Lottery aid for the City, as for most municipalities, had grown steadily over the last few years as a result of a state decision to phase-out the lottery cap and revert to the practice of returning all lottery profits to the cities and towns. FY00 was the fifth and final year of the state's plan. The City's lottery aid was \$63.1 million in FY00, \$71.0 million in FY01, and \$63.5 million in FY02. Lottery aid was level funded in the state's FY03 budget and then later reduced mid-year as part of the new governor's budget reductions. The City expects that FY03 lottery aid will be \$57.6 million after the recent reduction by the Governor and that any earnings over that amount will be diverted to the state. The City expects to receive 6.3% less in lottery aid in FY04 as the state continues to reduce local aid.

Under normal circumstances, the lottery formula is not favorable to the City because it distributes lottery aid increases based inversely upon each municipality's relative per capita property wealth. The City receives a smaller percentage share of lottery aid than its share of the state population, and dramatically less than the share of lottery proceeds derived from sales in Boston.

Nevertheless, lottery aid has been an important source of revenue growth, aiding the City's efforts to sustain adequate municipal services. Beginning in FY01, growth in the City's lottery distribution reflected only profit growth in the lottery and not the removal of the state cap on lottery aid that had been in effect the five years prior to FY01. Now that lottery aid is subject again to the state's discretionary capping or reducing, it may take

several years before it is again restored as solely a local aid revenue source.

Additional Assistance, as mentioned above, had been frozen since FY94, with most local aid increases coming through Chapter 70 education aid instead. Its purpose and usefulness came into question during the FY03 state budget process when the governor vetoed \$31 million from the statewide appropriation and the legislature failed to override that veto. Subsequently, the new governor, using his temporary local aid reduction powers, reduced additional assistance yet again in January 2002 by \$73 million. As Boston receives over 40% of the statewide distribution of additional assistance, these reductions fell disproportionately on the City. The City received \$206.6 million in additional assistance in FY02 and adjusted additional assistance of \$175.1 million in FY03. The City expects additional assistance to be reduced by 6.2% to \$164.2 million in FY04. Additional assistance has been important to Boston in supporting schools, public safety, and other basic city services. Its continued reduction seriously risks the City's ability to provide those services to residents and visitors alike.

PROPERTY TAX LEVY

The property tax levy has been the City's largest and most dependable source of revenue growth during the past 19 years. In FY03, the net property tax levy was \$995.5 million, providing 55% of all City recurring revenue, with an increase to \$1,034.4 million expected in FY04. According to current estimates, the net property tax levy will account for 58.2% of total recurring revenue in FY04.

The increases in the property tax levy have been steady and consistent from FY85 to FY03, ranging from \$28 million to \$63 million. However, because of the increasing property tax levy base, the \$29.9 million increase in FY85 represented an 8.9% increase, while the \$62.6 million rise in FY03 represented 6.4% growth. It is important for the financial health of the City that the property tax levy continue to grow, but its future growth, as explained in more detail below, is not guaranteed.

Proposition 2 1/2 has been the overwhelming factor affecting the City's property tax levy since being passed in 1980. Proposition 2 1/2 limits the property tax levy in a city or town to no more than

2.5% of the total fair cash value of all taxable real and personal property. It also limits the total property tax levy to no more than a 2.5% increase over the prior year's total levy with certain provisions for new growth and construction. Finally, Proposition 2 1/2 provides for local overrides of the levy limit and a local option to exclude certain debt from the limit. The City of Boston, however, has not voted to either override the levy limitations or exclude any debt from the limit.

Proposition 2 1/2, as amended in 1991, allows growth in the levy beyond the 2.5% limit for any new properties and any increases in property valuations that are not related to municipal-wide revaluations. This limitation is more flexible than the original limitations on allowable new growth and has helped to strengthen revenue growth in a budget that does not have a very diversified revenue base.

In each year since FY85, the City has increased its levy by the allowable 2.5%. These increases have grown as the levy has grown, beginning in FY85 at \$8.4 million and reaching \$24.3 million in FY03. During these same years, the levy has also been positively impacted by taxable new value, especially from new construction that has added to the tax base. The amount levied from taxable new value in FY03 was \$38.3 million and is estimated at \$25 million in FY04. The combined effect of the allowable 2.5% increase and the taxable new value is an average annual levy increase from FY98 through FY03 of \$47.6 million or 5.5%, and a projected increase in FY04 of \$50.9 million or 4.9%.

From FY85 through FY89, assessed property values in Boston increased at an average annual rate of about 22%, far outpacing the capped growth in the levy. Most of this increase was due to appreciation in the value of existing properties. This disparity between value appreciation and levy growth caused a significant downward trend in the property tax rate. The City's effective property tax rate in FY84 was 2.5%. By FY89, the effective property tax rate had fallen to 1.4%. When the disparity between growth in value and growth in the levy flows in this direction, the City's property tax base becomes more protected (i.e. more distant from the 2.5% limit).

What occurred in the Boston real estate market beginning in 1988 significantly reversed the FY85

through FY89 property tax trends described above (which reflect real estate activity in calendar years 1983 through 1987). As economic activity slowed, Boston's real estate values leveled off. Then, as the New England region experienced a deep recession, activity in both the commercial and residential markets slowed more dramatically. Office vacancy rates increased and downtown development came to a near standstill.

All of this was reflected in the fourth citywide revaluation, establishing values as of January 1, 1991 at \$29.8 billion. This represented an 18.1% decline from the prior year's total taxable value. This was followed by an 8.4% trending down for January 1, 1992 values at \$27.3 billion and a 1.9% decline for January 1, 1993 to \$26.8 billion. The January 1, 1994 values, established by the fifth citywide revaluation, showed a 5.0% increase to \$28.1 billion. This was followed by increases in taxable value of 4.5% and 5.5% in the following two years. The sixth citywide revaluation that established values as of January 1, 1997, showed a 9.0% increase to \$33.8 billion. This was followed by increases in taxable value of 6.8% to \$36.1 billion in FY99 and 10.8% to \$39.9 billion in FY00. The seventh citywide valuation that established values as of January 1, 2001, showed a remarkable 26% increase to \$50.5 billion in FY01. Growth has since settled some as FY02 taxable value increased to \$54.2 billion, or by 7.3% and FY03 increased to \$57.5 billion or by 6.2%. These last eight measures of taxable City property values have demonstrated recovery and strength in the City's real estate

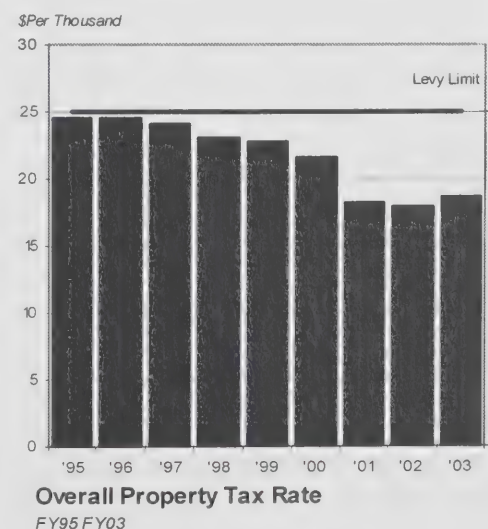


Figure 6

market since the significant fall in values in the early part of the 1990's.

As values decreased in the early 1990s, the City continued each year to maximize the allowable levy increase under Proposition 2 1/2. Between FY90 and FY94, the levy increased each year by an average of 6.4%. The dramatic decrease in values brought the effective tax rate (levy / taxable value) from its healthy low point of 1.4% in FY89 to 2.47% in FY94, dangerously close to the Proposition 2 1/2 tax rate ceiling of 2.5%. Reaching the 2.5% cap would have resulted in a very limited increase in allowable 2.5% annual levy growth. However, subsequent to the eight years of total taxable value increases described above, the City now has some space between its FY03 net effective tax rate of 1.86% and the tax rate ceiling. (Figure 6.)

Should the real estate market, which is still strong but slowing, suddenly depreciate again, the City's lack of proximity to the 2.5% property tax rate threshold should insulate revenues from an immediate shock but could, if values are depressed long enough, impair the growth of the property tax. This would have serious implications for the City's ability to maintain the current level of services in the future. The real estate market was healthy in 2001 and 2002 and will hopefully remain steady throughout 2003 and 2004.

It should be noted that the City receives approximately 80% of its revenue from property taxes and state aid. Should the economy not recover soon, continued poor economic conditions would pressure the state to further cut local aid. As we see currently, weaker economic conditions hurt the Commonwealth's tax collections and force it to increase spending on social programs. This negatively impacts the Commonwealth's ability to balance its budget without cutting local aid, possibly over the course of several fiscal years.

Luckily for municipalities, property taxes are a more stable revenue stream and since values and the base have been steadily increasing, the levy is not likely to approach a point of reaching the 2.5% limit, where revenues would be reduced, even if the economy were to remain sluggish for an extended period.

OTHER REVENUE

Approximately 20% of the City's budget is comprised of Excise taxes, Fines, Payments-Lieu-of-Taxes (PILOTs), 121A Agreements, Investment Income, Miscellaneous Departmental Revenue, Licenses and Permits, Penalties and Interest, Available Funds, and Teacher's Pension Reimbursement. Some of these revenue streams are sensitive to economic conditions and can fluctuate significantly from year to year, and others are very stable, delivering predictable consistent annual revenues to the City. The recent recession has greatly affected the excise, interest on investment, and license and permit revenues of the City. Excise taxes have been reduced by falling room occupancy and jet fuel revenues as the travel and tourism industries have suffered through terrorism warnings and reduced corporate travel business. While motor vehicle excise has performed better due to zero percent financing from manufacturers on new cars, investment income has suffered steep losses as reduced interest rates have suppressed earnings after several years of very strong gains. License and permit revenues, as a result of building permits, have been strong in recent years due to strong commercial development in the City. But they have recently declined as projects are delayed despite low interest rates and increased demand for housing.

The remaining sources of other revenue to the City are based on agreements with non-profit institutions, contracts with urban redevelopment corporations, or set rates of fees, fine, penalty or interest. These have endured the recession with little change in activity or revenue.

Overall, the City has experienced a reduction in other revenue over the past few fiscal years. In FY01 the City collected \$372.0 million from these combined sources and \$365.9 million in FY02. The FY03 budget expects that the City will collect \$340.8 million, or a 6.9% decline from FY02, and the FY04 budget expects another slight decline to \$340.2 million.

More detail of these revenue sources is available in the tables following this page and in the *Summary Budget* section of Volume I.

The diversification of revenues in this category provides for an overall stable revenue stream to

the City, as gains in some sources offset losses in others due to the competing economic variables that drive them. While there is fluctuation from year to year overall, it is generally predictable and contained to a level where adjustments can be made without serious damage to basic City services. As mentioned above, the City has proposed additional local option excises to further diversify its revenue base and continues to review its fee and fine structure to ensure it receives the proper level of reimbursement for the services it provides.

CITY OF BOSTON REVENUE DETAIL

		FY01 Actual	FY02 Actual	FY03 Budget	FY04 Budget
PROPERTY TAX LEVY OVERLAY RESERVE		917,919,531 (43,906,229)	972,652,642 (46,316,792)	1,035,270,812 (39,818,108)	1,086,152,582 (51,721,552)
	Subtotal	874,013,302	926,335,850	995,452,704	1,034,431,031
EXCISES					
	Motor Vehicle Excise	41,821,433	42,764,112	38,000,000	38,000,000
40129	Room Occupancy Excise	15,000,000	20,975,953	20,000,000	19,000,000
40130	Jet Fuel Excise	15,278,572	16,221,475	13,600,000	12,000,000
	Other Excise	555,972	684,110	405,500	255,000
	Subtotal	72,655,977	80,645,651	72,005,500	69,255,000
FINES					
	Parking Fines	55,508,761	56,524,172	57,650,000	59,500,000
45104	Code Enforcement - Trash	497,630	503,938	490,000	475,000
	Other Fines	3,761,420	3,629,722	3,357,100	3,325,000
	Subtotal	59,767,811	60,657,832	61,497,100	63,300,000
47151	INTEREST ON INVESTMENTS	26,084,445	14,800,359	10,750,000	6,200,000
PAYMENTS IN LIEU OF TAXES					
40169	Massport	11,422,730	7,306,186	7,700,000	10,900,000
	Other Payments In Lieu of Taxes	14,522,905	12,310,534	12,661,888	12,851,798
	Subtotal	25,945,635	19,616,720	20,361,888	23,751,798
URBAN REDEVELOPMENT CHAPTER 121A					
	Urban Redev. Chap. 121A Sec. 6A	14,048,238	16,714,922	13,761,381	13,858,352
41013	Urban Redev. Chap. 121A Sec. 10	32,827,152	31,658,661	31,000,000	31,000,000
	Subtotal	46,875,390	48,373,583	44,761,381	44,858,352
MISC. DEPARTMENT REVENUE					
43105	Registry - Vital Statistics	1,011,989	1,004,672	1,000,000	1,000,000
43109	Liens	745,050	880,825	800,000	800,000
43120	City Clerk - Fees	560,418	776,753	750,000	700,000
43137	Municipal Medicaid Reimbursement	18,928,951	16,571,169	14,000,000	12,000,000
43202	Police Services	462,452	476,466	480,000	480,000
43211	Fire Services	2,974,221	3,254,398	3,000,000	3,000,000
43301	Parking Facilities	2,222,017	1,988,112	1,800,000	1,500,000
43311	PWD - Street & Sidewalk Occupancy Fees	2,067,539	2,561,121	2,500,000	2,500,000
43797	PWD - Fiber Optic Rental Fees	2,792,552	289,523	300,000	250,000
44002	Tuition & Transportation - Schools	423,925	689,172	550,000	550,000
44101	Library Fees	70,782	100,827	185,000	175,000
44103	Library of Last Recourse	2,367,325	0	0	0
45106	Registry of Deeds Fees	151	2,505	0	0
47001	Telephone Commissions - City	87,267	23,351	25,000	25,000
47117	Worker's Comp. Reimbursement	732,635	4,095,694	66,000	0
47119	Settlements	381,595	1,359,069	700,000	700,000
47131	Pensions & Annuities	2,701,471	2,196,620	2,250,000	2,250,000
47132	Fringe Benefit & Indirect	423,313	1,257,007	1,850,000	1,000,000
47155	Prior Years Reimbursements	2,490,441	7,651,018	2,250,000	1,500,000
47157	Misc. Recovered Revenues	344	373	200	200
48000	Police Detail, 10% Admin. Fee	2,073,445	2,256,352	2,200,000	2,250,000
48003	Fire Detail, 10% Admin. Fee	223,960	263,137	275,000	265,000
	Other Misc. Department Revenue	1,336,204	6,444,796	3,390,410	3,768,410
	Subtotal	45,078,046	54,142,959	38,371,610	34,713,610

CITY OF BOSTON REVENUE DETAIL

		FY01 Actual	FY02 Actual	FY03 Budget	FY04 Budget
LICENSES & PERMITS					
40211	Building Permits	27,191,839	19,055,144	15,000,000	12,500,000
40213	Weights & Measures	175,895	162,240	245,000	245,000
40215	BTD - Street & Sidewalk Permits	1,352,523	1,603,688	1,400,000	1,400,000
40221	Health Inspections	1,065,436	1,116,240	1,050,000	1,050,000
40222	Alcoholic Beverage Licenses	2,306,548	2,303,108	2,400,000	2,400,000
40224	Entertainment Licenses	482,726	503,416	480,000	480,000
40225	Police & Protective Licenses and Permits	546,858	424,580	450,000	425,000
40229	Other Business Licenses and Permits	1,001,114	990,127	1,000,000	1,000,000
40235	Cable Television	3,418,364	3,236,361	2,850,000	2,900,000
	Other Licenses and Permits	270,304	237,783	343,000	350,000
	Subtotal	37,811,607	29,632,686	25,218,000	22,750,000
PENALTIES & INTEREST					
40133	Penalties & Interest - Property Tax	1,388,573	1,672,085	1,500,000	1,500,000
40134	Penalties & Interest - Motor Vehicle Excise	2,741,143	2,852,381	2,850,000	2,850,000
40136	Penalties & Interest - Tax Titles	3,889,161	3,544,650	4,000,000	3,650,000
	Other Penalties & Interest	6,518	658	100	200
	Subtotal	8,025,394	8,069,774	8,350,100	8,000,200
AVAILABLE FUNDS					
42502	Cemetery Trustee	1,678,386	1,778,400	1,849,004	1,874,004
42503	Parking Meters	6,677,030	2,790,000	10,000,000	10,000,000
	Subtotal	8,355,416	4,568,400	11,849,004	11,874,004
STATE AID					
41015	State Owned Land	0	997,509	213,204	170,563
41101	R.E. Abatements - Veterans	0	531,201	209,462	507,271
41102	R.E. Abatements - Surviving Spouses	0	0	267,943	0
41103	R.E. Abatements - Blind	0	0	29,467	0
41104	Elderly Exemptions	0	0	493,968	457,578
41111	State Lottery Local Aid	70,978,173	63,492,321	57,555,789	53,968,473
41112	Highways	836,476	209,119	0	0
41114	Veterans Services	168,279	843,954	1,127,511	902,794
41116	Additional Assistance	206,638,214	206,638,214	175,126,364	164,211,152
41119	Racing Taxes	593,837	489,444	483,333	710,262
41301	School Construction	20,199,100	17,128,745	17,232,498	16,882,423
41305	Charter Schools Reimbursement	7,509,707	8,248,839	0	0
41306	Chapter 70 Education Aid	197,517,540	205,643,453	205,643,453	200,498,366
41307	Charter Schools Tuition	(21,892,408)	(26,543,817)	(35,867,316)	(42,055,246)
41311	School Transportation	6,212	10,357,059	19,862,156	0
41316	Tuition for State Wards	1,220,646	1,618,855	0	0
41117	Police Career Incentive	0	6,460,404	7,515,791	7,800,000
	Subtotal	483,775,776	496,115,300	449,893,624	404,053,636
41115	TEACHERS PENSION REIMBURSEMENT	41,392,675	45,340,542	47,600,000	53,683,909
42504	BUDGETARY FUND BALANCE	0	0	0	25,000,000
42501	Surplus Property	0	0	14,876,000	4,876,000
	GRAND TOTAL	1,729,781,474	1,788,299,655	1,800,986,911	1,806,747,540



Education

Innovations in Education

OVERVIEW

More than ever before, improving public education in Boston will require a united front by all. FY04 represents the third year of the Boston Public Schools' (BPS) five-year education reform plan, Focus on Children II, and perhaps its biggest challenge to date. The plan recognizes the goals and accomplishments made through the plan's predecessor, Focus on Children, and emphasizes six essentials of learning. The objective is to guide instructional practice to accelerate the rate of improved teaching and learning. Results thus far have been encouraging, but with difficult economic times and the loss of state aid, everyone involved in public education in Boston will have to redouble their efforts in order to continue Boston's rate of educational progress.

BPS Goals

In July 1996, the School Committee adopted Focus on Children, a comprehensive five-year education reform plan designed to serve as a blueprint for improvement throughout the system – from central offices to every classroom in every school.

Under the leadership of Mayor Thomas M. Menino, the Boston School Committee and Superintendent Thomas W. Payzant, the Boston Public Schools set upon a course for continuous improvement. With the adoption of Focus on Children, the BPS community – educators, families, students, and private partners – sharpened its focus on the primary goal of improving teaching and learning in order to enable all students to achieve high standards of performance. This reform had a positive, measurable impact on public education in Boston. Test scores and other data show that Boston's schools and students demonstrated continuous improvement over the five-year period.

The many lessons learned through the Focus on Children plan are the foundation upon which the Focus on Children II plan was built. This plan maintains that if we persist in a thoughtful and unifying process of continuous improvement, we

will achieve the results we seek. Focus on Children II emphasizes whole school improvement, a collaborative process that leads to measurable improvement in student performance. It requires all stakeholders to look at a school's many challenges and opportunities not in isolation but in their entirety. The following six essentials highlight whole school improvement:

- Focus on literacy and mathematics;
- Use student work and data to identify student needs, improve instruction and assess progress;
- Focus professional development to give teachers and principals what they need to improve instruction in core subjects;
- Identify and replicate best practices for instruction;
- Align all resources with instructional focus; and
- Engage families, community and partners to support whole school improvement.

BPS Operating Budget

The FY04 BPS Budget represents an ongoing effort to align resources with educational priorities. While this budget does not reflect optimum funding for the Boston Public Schools, it does succeed in achieving an appropriate balance between our priorities for teaching and learning and the resources available. It continues to build on the previous years' progress by concentrating available resources at the school level in order to implement citywide learning standards and whole school change.

Balancing ambitious educational goals with finite resources is always difficult. The task of BPS in FY04 has been especially challenging because at the same time that improvements in teaching and learning are showing results, the revenues that support these improvements are constrained. However, reductions in service in certain areas have allowed BPS to reallocate resources to fund its most vital activities, those that support teaching and learning.

Included in the extremely difficult reduction decisions are cuts of over 850 positions, including over 425 teaching positions. This reduction in employee levels was driven by several key cost-cutting measures, including the following:

- Each of Boston's schools was required to take an 8% budget cut, excepting 4 schools that serve student populations with significant disabilities (where reductions would result in more expensive out-of-district placements).
- BPS conducted a comprehensive review of models of service delivery and efficiencies in central office budgets, which resulted in consolidation of services and reduction of positions. Central office budgets were ultimately reduced by 26%.
- Caseloads for Special Education support positions, including Evaluation Team Facilitators (ETFs), Speech Therapists and Occupational Therapists, have been increased resulting in a reduction in SPED support and clerical support positions, as staffing levels for clerical support are tied to the number of SPED support positions.
- BPS determined that 5 schools, 2 middle and 3 elementary, would close at the end of the FY03 school year. The School Committee approved a set of criteria to consider when recommending school closures including capital planning and programmatic considerations, enrollment and demographic information and potential cost savings. The City does not intend to sell any of these buildings at this time and has considered usage options for programs serving BPS students.

Despite these difficult choices, BPS has developed a plan for FY04 that succeeds in focusing resources on its most important priorities and allows it to move forward in several critical areas, including the following:

- BPS is opening three new state-of-the-art schools in September 2003, two middle schools and one K-8 school. Two of these will be the first new middle schools in Boston in thirty-five years. One of the middle schools and the K-8 school will function as Pilot Schools. Combined, these new schools will serve a total of 2,100 students.

- BPS is committed to the expansion of Tech Boston Academy. Tech Boston Academy served 74 students in FY03, all in grade 9. In FY04 grade 10 will be added, serving an additional 80 students.
- BPS is continuing progress in high school restructuring and establishing small learning communities.
- In response to the passage of Massachusetts ballot Question 2, BPS is purchasing textbooks and educational materials for English Language Learners in order to facilitate the implementation of English immersion as mandated by new regulations.
- BPS is continuing to focus resources on efforts to insure that the gains made in student achievement and in closing the achievement gap are sustained.

Prior to the FY04 budget formulation BPS built a competitive environment for transportation services beginning in FY04. This new competition among transportation providers has allowed avoidance of substantial increases in cost that would have resulted in even higher reductions than already reflected. BPS recognizes that transportation is a major expense and will renew its commitment to explore options that will allow for further transportation savings in future years.

The BPS FY04 budget is reflective of Mayor Menino's continued commitment to education. It ensures that even in times of fiscal distress, education remains a top priority for the City of Boston. In the years leading up to FY04, Boston has shown a true commitment to improving education.

The BPS FY03 Operating Budget of \$650.6 million showed a 1.7% increase over the FY02 expenditures of \$639.7 million. This represents a cumulative increase of \$242.5 million, or 59.4%, between FY94 and FY03. The FY03 BPS Budget was 43.6% of the total city departmental appropriations (excluding fixed costs).

The total city-funded FY04 BPS Operating Budget is \$646.1 million, representing a .7% decrease from FY03. The FY04 BPS Operating Budget is 43.9% of the total city departmental appropriations (excluding fixed costs) and represents a cumulative increase of \$238 million, or 58.3% between FY94 and FY04.

BPS STUDENTS AND PROGRAMS

Student Enrollment

Student enrollment is the key driver of the BPS Budget. Allocations of resources at the school level are determined by the projected enrollment at each school for the next school year. These projections are distributed across all of the programs offered, across all grades, and at every school. As of December 2002, BPS had 62,102 students enrolled. This represents a decrease of 637 students from the 62,739 students enrolled in December 2001. Today's enrollment represents an increase of about 3.2% since FY94, or 1,912 students. (Figure 1.)

Enrollment projections for FY04 anticipate a slight decrease in the number of regular education students from December 2002 actual enrollment numbers, with special education also showing a slight decrease over the December actuals. Currently 75.5% of students are in regular education programs (including vocational and advanced work, and 502.1, 502.2, and 502.3 prototype mainstream special education), 14.6% are in bilingual education, and 9.9% are in substantially separate special education programs (502.4 prototype).

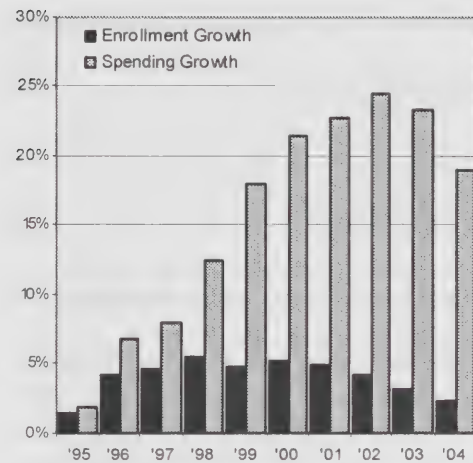
The approval of Massachusetts's ballot initiative Question 2 will radically change the provision of educational services to English Language Learners. As a result of Question 2, BPS is likely to see a substantial movement of students who had been educated in bilingual settings into the mainstream regular education population.

BPS seeks to ensure equal educational opportunities and prevent discrimination and inequalities based on racial, ethnic, socio-economic status, gender, sexual orientation, or any other reasons. The student population is ethnically diverse. FY03 enrollment was 47% African-American, 29% Hispanic American, 14% Caucasian, 9% Asian American, and less than 1% Native-American.

PROGRAMS AND SERVICES

Regular Education

Regular education is comprised of grades 1 through 12, kindergarten, and early learning opportunities. The programs offered range from



Cumulative School Enrollment Growth vs. Cumulative School Expenditure Growth
FY95- FY04. Adjusted to FY94 dollars

Figure 1

early learning and early education centers to high school programs, from classical education to technology, from social studies to international studies, and from advanced work classes to remedial and alternative education programs. Regular education students are often integrated with bilingual and special education populations. In addition, adult basic education and evening high school programs are available for Boston's adult population.

English Language Learners

In September 2002, the School Committee approved the Policy for English Language Learners (ELL). This policy remains in place with modifications that take into consideration the legal requirements of Question 2, which mandates that, with limited exceptions, all public school children in Massachusetts must be taught all subjects in English. In November 2002, BPS presented the first phase in the implementation of Question 2 to principals, headmasters and administrators. The phase-in process continues in areas such as definition of programs, waiver process, student and teacher assignment and professional development.

The Office of Bilingual Education and Language Service (OBELS) has redefined its mission to achieve a balance between focusing more deeply and systematically on the academic achievement of English Language Learners and compliance monitoring. OBELS is a project-based organization designed specifically to execute

effectively all aspects of Question 2 from research to implementation.

OBELS has developed a definition of all new programs for English Language Learners, which will be in place in September 2003. Work continues in the following areas:

- Implementation of the waiver section in Question 2 consisting of the definition and implementation of a waiver granting procedure at the BPS.
- Implementation of a professional development plan focused on preparing BPS staff to work with ELL's in programs specifically designed for English Language Learners and in general education.
- Workshops on the new Limited English Proficient (LEP), Testing Requirements for the MCAS, LAS (Language Assessment Scales) and MELA-O (Massachusetts English Language Assessment Oral). These workshops are part of the requirements of No Child Left Behind and Question 2.
- Assessment and identification of OBELS programmatic data needs in order to develop a comprehensive data collection plan to monitor the academic achievement of English Language Learners.
- Identification and purchase of instructional materials, texts, and visual aids for Sheltered English Instruction for the next academic year.
- Information packets for schools to share with parents to disseminate essential information to ELL parents regarding the restructuring of bilingual education.

Special Education

BPS provides special education services to approximately 12,300 students delivered in both public schools and special education private schools. Special Education teachers work with students with disabilities in meeting the goals and objectives of their Individualized Educational Plans (IEPs). In addition to BPS teachers, service providers, including speech and language pathologists, occupational therapists and adaptive physical education teachers provide services as determined through the IEP process.

All special education services are provided in accordance with the Individuals with Disabilities Act (IDEA), Chapter 71B of the Massachusetts

General Laws, Boston School Committee policies, and specific requests related to the courts. To ensure equal access to all curricula in regular education, all teaching and learning experiences within the special education arena must be closely aligned with Citywide Learning Standards and Curriculum Frameworks.

In November 1998, the BPS Accountability Standards for Least Restrictive Environment (LRE) Mandate was first issued. The 2002 report shows clear progress in the area of referrals to special education as well as placements in out-of-district placements.

Currently approximately 17.7% of BPS students have Individualized Educational Plans. This represents a significant decrease from 22% in the 1997-1998 school year. The state average is 17%, while the national average for an urban city is 12-14%. Though considerable progress has been made in the area of referrals to special education as well as a reduction in the number of new students placed in out-of-district placements, the number of students placed in substantially separate settings (502.4 prototype students), requires continued and extensive focus.

Support Services

Students in all programs take advantage of the wide range of support services in the schools. School medical services, psychological services, guidance services and other support services are offered across all grade levels. Prudent deployment of this student support is designed to better the system's capacity to address the changing needs of students. In addition, collaborative arrangements with human services and community agencies supplement the support services offered to students and their families.

ALTERNATIVE SCHOOL DESIGNS

Pilot Schools

Pilot schools were developed through the BPS/ Boston Teacher's Union (BTU) collective bargaining contract. Pilot schools are established through proposals submitted in a Request for Proposals process, in which at least one of the individuals submitting the proposal is a BPS staff member. The pilot schools are free from union

contract and School Committee rules and regulations.

Pilot schools can serve as useful examples of cutting-edge education practices. They provide a "laboratory" where innovative and exciting educational ideas can be developed and shared with the entire district. Pilot school students' test scores have shown consistent improvement. However, not all educational methods are transferable to all classrooms. Managerial flexibility over staffing, budget, curriculum, use of time and governance allow pilot schools to innovate in ways that deepen what and how children learn.

The budget for each pilot school is based on the average per pupil grade level cost. The per-pupil cost allocated to the pilot schools includes all instructional, administrative and support services costs except for transportation and the cost of educating private placement students. The per-pupil cost of pilot schools students is part of the BPS Operating Budget.

Boston currently has the following eleven pilot schools: Fenway Pilot High School; Young Achievers Science and Mathematics Pilot School; Lyndon Pilot School; Greater Egleston Community High Pilot School; the Mission Hill Pilot School; Harbor Pilot School; New Mission High; Boston Arts Academy Pilot School; Quincy Upper Pilot School; Tech Boston Academy; and Boston Community Leadership Academy. Two additional pilot schools are scheduled to open in September 2003, New Boston Middle School and Orchard Gardens K-8.

There are approximately 3,000 students enrolled in Boston's pilot schools during FY03. The FY04 projected enrollment for pilot schools is approximately 4,700.

Horace Mann Charter Schools

Two schools originally founded as pilot schools were designated as Horace Mann charter schools by the Board of Education in 1999. These two schools, the Health Careers Academy and the Boston Evening Academy are projected to serve 395 students in FY04.

A Horace Mann charter school represents all or part of a public school operated under a charter approved by the local school committee and local bargaining agent, granted by the State Board of

Education. A charter is granted for five years and is renewable. Educational assessments are conducted by the State, and charter schools are required to comply with state regulations on testing and assessments. All charter schools will be required to measure their progress against the goals set under their charter and make a formal annual report. In addition, there will be site visits to assess each charter school's progress.

A Horace Mann charter school annually submits a budget request to the Superintendent and School Committee. The cost of Horace Mann charter schools is included in the BPS Operating Budget. A Horace Mann charter school shall not receive less than it would under the district's budgetary allocation rules.

Commonwealth Charter Schools

Commonwealth charter schools differ from pilot schools and Horace Mann charter schools because the granting of their charter does not require the approval of the school committee or school unions, and they do not submit an annual budget request to the school committees. Commonwealth charter schools are public schools established by charters granted by the Board of Education independent of local school committees, in accordance with the Education Reform Act of 1993. The cost is borne by the sending district of the student attending the Commonwealth Charter School. The tuition costs for charter school students who live in Boston are paid for by the City of Boston, outside of the BPS Operating Budget.

In FY03 there are fifteen Commonwealth charter schools available to Boston's students. The following twelve are located in the City of Boston: Academy of the Pacific Rim Charter School, Boston Renaissance Charter School, City on a Hill Charter School, Conservatory Lab Charter School, Edward Brooke Charter School, Frederick Douglass Charter School, Codman Academy Charter School, Media & Technology Charter School, Neighborhood House Charter School, Roxbury Preparatory Charter School, South Boston Harbor Academy Charter School and Uphams Corner Charter School. Boston students attend three Commonwealth charter schools located outside of Boston. They are Benjamin Banneker Charter School in Cambridge, Somerville Charter School in Somerville, and South Shore Charter School in Hull. Four additional Commonwealth

charter schools in Boston are scheduled to open in the fall 2003: Smith Academy Charter School, College Preparatory Charter School, Roxbury Charter High School and the Excel Academy Charter School. Boston students will also attend one additional charter school outside the City – Mystic Valley Regional Charter School in Malden. It is projected that 4,288 Boston students will be attending twenty charter schools in total in fall 2003.

Beginning in FY99, there was a change in the method of financing Commonwealth charter schools. In FY99, the state reimbursed 100% of the first year costs for new Commonwealth charter school students at new or existing Commonwealth charter schools, 60% of the students' second year costs, and 40% of their third year costs. The City of Boston is scheduled to assume the full tuition costs by the students' fourth year. Even though the charter school reimbursement law is still in effect, the State did not fund charter school reimbursement in FY03 nor has the Governor included any funding for charter school reimbursement in his FY04 State Budget (House 1). The House and Senate Ways and Means Conference Committee Budget includes some funding for Charter School tuition reimbursement but the City has chosen not to budget these funds fearing they will be vetoed and an override of that veto not sustained. Charter school costs for FY03 are projected to be \$35.9 million and projected to increase by an additional \$6 million to \$42.1 million in FY04.

EXTERNAL RESOURCES

External Funds

Overall, BPS is projected to receive \$129.4 million in external funds in FY04. External funds are received through formula grants (entitlements), competitive grants, reimbursement accounts and other grants primarily from state and federal sources. Compared to FY03 funding, the projected amount for FY04 represents a decrease of approximately \$5.3 million or 3.9%.

External funds are important to the overall success of the Boston Public Schools and provide a source of funds that are targeted for specific purposes that enhance teaching and learning.

They are aligned with the general fund budget to support an all-funds approach to budgeting.

FY03 saw several changes in grants from the state due to revenue reductions and from the federal government related to changes in policy. State grant amounts continue to decline in FY04, with many projected to be completely eliminated.

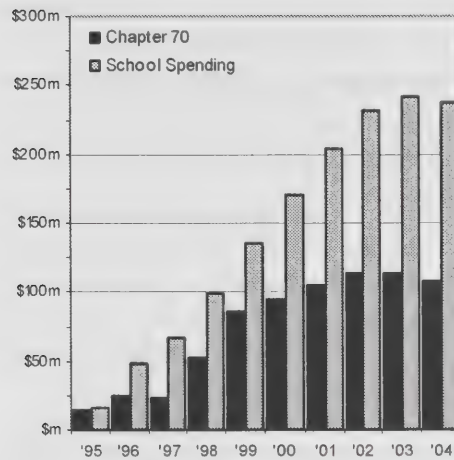
On the federal side, the current administration's No Child Left Behind policy, established during the cyclical reauthorization of the Elementary and Secondary Education Act (ESEA), promises resources geared toward improving the quality of education for every child.

No Child Left Behind funds come with substantial new programmatic requirements. Its major concepts are better targeting of disadvantaged students, greater choice for parents, flexibility for states and districts, accountability, and scientifically based instructional strategies and academic content. No Child Left Behind also provides BPS with a number of new opportunities to compete for funds.

Chapter 70 Aid

The 1993 Education Reform Act is a multi-year commitment by the state to increase and equalize funding for local education. Since the FY94 state budget, the Education Reform Act's financing formula has affected the amount of education aid the City has received. It has also required the City to spend at or above the education maintenance of effort, which it has done. The City of Boston received \$66.6 million in FY94, \$81.6 million in FY95, \$92.1 million in FY96, \$115.5 million in FY97, \$143.9 million in FY98, \$178.2 million in FY99, \$186.2 million in FY00, \$197.5 million in FY01, \$205.6 million in FY02 and \$205.6 million in FY03.

Governor Romney's FY04 Budget (House 1) funds Boston's Chapter 70 Education aid at \$245.6 million – a 19% increase over Boston's FY03 Chapter 70 Education aid. The large increase is due primarily to two factors: (1.) the large decrease in Boston's municipal revenue growth factor (-4.27%) as a result of the cut in Boston's general government revenues – lottery and additional assistance; and (2.) the increase in foundation enrollment and in the foundation budget per pupil factors for low income students and special needs students resulting in an



Boston's Cumulative Chapter 70 Growth vs. Cumulative School Expenditure Growth

Figure 2

increased foundation budget. Any increase in Chapter 70 Education aid must be tempered by the cuts in Boston's general government local aid and the increase in Boston's charter school costs in FY04.

Private Partnerships

BPS has continued a long-running tradition of working with numerous independent organizations to help bring additional resources, expertise, and guidance to the youth of Boston and BPS students. It is an important goal of the School Department that each school will have established a partnership not only with a college or university, but also with a business or foundation, arts or cultural organization and health or human services provider.

Technology Initiative - Over 100 businesses have contributed in the form of direct partnerships with the schools and other forms of system-wide assistance.

ReadBoston Initiative - A partnership with city organizations committed to children's literacy, harnesses resources, innovative programs, books and best practices and devotes much time and energy to promoting literacy in Boston's elementary schools.

In addition to business partnerships, the BPS is the beneficiary of a consortium of higher education institutions. According to the Boston Higher Education Partnership, 28 colleges and universities have formed a consortium that provides the largest amount of funding and

services to a single urban school district in the entire country. This steadily increasing assistance comes in the form of scholarships, pro-bono assistance, and external grants.

In addition to college, university and business partnerships, BPS is also striving to strengthen partnerships with arts and cultural institutions and health and human services providers. According to the Boston Cultural Partnership, over 60 cultural organizations, ranging from internationally known cultural institutions to community-based organizations to individual artists, offer programs to 95% of Boston Public Schools. About 74% of the students served in these programs are at the elementary level.

Performance Indicators and Standards

Overview

An accountability process based on measurable outcomes has been in place for a number of years. The goal of this accountability process is to promote ongoing improvement in teaching and learning at each and every Boston Public School and in each and every classroom within these schools.

Adequate Yearly Process

With the passage of the No Child Left Behind Act (NCLB), the district's role with respect to accountability has been redefined. Under NCLB, federal regulations define specific criteria for which schools will be held accountable and on which sanctions and/or rewards are based. Adequate Yearly Progress (AYP), mandated by the federal government, interpreted by the state, and measured by performance on the Massachusetts Comprehensive Assessment System (MCAS) is the statistic that defines whether or not a school is meeting an accountability standard. Thus AYP has been added as a new performance indicator.

NCLB requires public schools to inform parents if their child's school fails to make AYP for one or more cycles. A cycle is a two-year period over which MCAS performance is averaged. For schools not making AYP for both Cycles I (1999 and 2000) and Cycle II (2001 and 2002), parents must be notified that they can transfer their child to another school if space allows and that supplemental services will be available to children who need them. Additionally, BPS is expected to

take appropriate action to ensure improved student performance at these schools in future years. For schools not making AYP for Cycle II only, parents must be notified that they can transfer their child to another school if space allows and schools must perform appropriate actions to ensure improved student performance in subsequent years.

(Note: Performance Indicator & Standards data can be found in the Education chapter in Volume II of the City of Boston FY04 Budget.)

Daily Student Attendance

Student attendance is an indicator of student exposure to school instruction. Student attendance is a percentage calculated as the average daily attendance divided by the average daily membership based on data provided by each school to the Record Management Unit. The percentage is computed only from the particular grades in each school, excluding kindergarten. High student attendance is a basic requirement underlying school effectiveness, and the expectation is for student attendance to continuously improve.

Dropouts

According to state guidelines established in SY1991-92, students in grades 6-12 regardless of whether or not they are 16 years old, are counted as dropouts if they leave school during the year from July 1 to June 30 for any reason other than transfer, graduation, death, or expulsion with an option to return. This indicator applies primarily to high schools. The dropout rate is generally regarded as an index of a school's holding power, and the expectation is for the dropout rate to continuously decline. It should be noted that middle and high school refer to grades 6-8 and grades 9-12 respectively.

MCAS Tests: Distributions

The data present the percentage of students in each of four MCAS Performance Levels. Level 1 denotes "failing," Level 2 denotes "needs improvement," Level 3 denotes "proficient," and Level 4 denotes "advanced."

In the analyses of MCAS scores, percentages are based on the total number of students required to take the test. This includes regular students, students with disabilities tested with standard

accommodations, and Limited English Proficient students in the US for more than 3 years.

It is expected that percentages of students in Level 1 will continuously decrease and percentages of students in Levels 3 and 4 will increase.

During School Year 2001-2002, the MCAS was administered for the fifth time. English/Language Arts was administered in grades 4, 7, and 10 and Mathematics in grades 4, 6, 8, and 10. These tests have emerged from a provision in the Massachusetts Education Reform Act of 1993. Students entering the 11th grade in the 2001-2002 school year are the first group required to pass the MCAS in high school as a graduation requirement.

(Note: the Science and Technology test was not administered in grades 4, 8, or 10 in SY01.)

Promotions

The promotion rate used in these analyses is intended to reflect achievement during the school year; therefore, it is calculated as the percentage of students promoted to the next grade as of June. It does not include those students who are promoted during the summer. Please note that elementary, middle, and high school refer to grades 1-5, 6-8, and 9-12 respectively. Promotions represent an achievement both for students and for their schools. It should be noted that the current more rigorous policy encourages an end to social promotions. It is expected that after an initial adjustment, promotion rates will continuously improve.

FORMAL BUDGET PROCEDURES

Governance

The seven-member Boston School Committee is appointed by the Mayor to staggered-terms and serves as the policy-making body of the Boston School Department. This structure was affirmed by the voters of the City of Boston in a referendum held in November 1996. The Committee appoints a Superintendent who serves as the chief executive officer of the Boston Public Schools. The Superintendent, responsible for management and supervision of the public schools, reports directly to the School Committee and also serves as a member of the Mayor's Cabinet. At each school, site councils have been established

consisting of the building administrator, parents, teachers, representatives of collaborating institutions and a student at the high school level. The council's role is to assist the principal or headmaster in decision-making processes.

The Operating Budget Process

The operating budget serves as an operational plan, stated in financial terms, for carrying out the goals of the school system. The operating budget is developed in accordance with the goals and objectives approved by the School Committee and extensive input from principals, headmasters, school site councils, the Superintendent's Leadership Team, and the larger school community. The budget reflects what the Boston Public Schools seek to achieve during the next fiscal year based on available resources.

The public school operating budget is developed under the following statutory schedule:

The Superintendent shall submit to the School Committee an annual operating budget for the next fiscal year by the first Wednesday in February.

The School Committee shall submit to the Mayor estimates of the next fiscal year's operating budget by the fourth Wednesday in February.

The School Committee may adopt, reject, reduce or increase any item in the Superintendent's recommended operating budget. If the School Committee fails to take action on the Superintendent's recommended operating budget by the fourth Wednesday in March, the budget recommended by the Superintendent shall be deemed as if approved by the School Committee.

After School Committee approval of the next fiscal year's annual budget, the Superintendent shall submit the budget to the Mayor who may approve or reduce the total recommended budget, but who may not allocate among expenditures.

The Mayor must submit the school's operating budget to the City Council for appropriation.

The City Council shall vote on the total amount of the appropriations requested by the Mayor, but neither the Mayor nor City Council shall allocate the appropriations among accounts.

CAPITAL IMPROVEMENTS

The city's capital planning process supports the Mayor's commitment to education and ensuring Boston's educational facilities are equipped to meet the needs of the City's families. Between FY98 and FY02 capital expenditures for schools totaled \$311.8 million or 41% of total expenditures excluding spending on the new convention center. FY03 capital expenditures for the schools totaled \$71.2 million.

The FY04-08 capital plan includes \$286.7 million for school facilities and equipment. In FY04 \$51.2 million in new authorization is proposed. The proposed capital plan includes the following:

- Three new schools, a K-8 school at Orchard Gardens, a middle school at Columbia Road, and a middle school at Mildred Avenue opened in September 2003, providing 2,200 students modern state-of-the-art classrooms;
- Window replacements and masonry repairs will be completed at Boston Arts Academy;
- The design of fire alarm upgrades will be completed at seven schools;
- HVAC improvements will be completed at Madison Park High, Hamilton, Tynan and Umana Barnes;
- Masonry repairs at several schools including Dorchester High School;
- Construction for electrical and technology wiring upgrades at 16 schools.

In addition to these highlights, the capital plan includes additional maintenance projects for windows, roofs, and boilers at schools across the city. Project level detail on capital expenditures can be found in the Education section of Volume II of the FY04 Budget.

Capital investment in high schools has resulted, once again, in all schools either maintaining or improving their accreditation status in the last year.

The City has made strides towards achieving the Mayor's goal of adding technology throughout the schools. Complete electrical upgrades and technology wiring began in FY99. Today, all schools have received at least a minimum build out of classroom technology to make connections to the school network and the Internet. Some of

the technology work is discountable at a rate of 80-90% through the Federal Communications Commission Universal Service Fund.

Since FY97 the capital plan has funded a number of major accomplishments including:

- Upgrading or reaffirming full accreditation status for all the City's high schools;
- Becoming the first major urban public school district in the United States to have all schools wired to the Internet;
- Providing full electrical and technology wiring upgrades at 105 schools;
- Completing construction on 3 major high school renovations: Boston Latin, Hyde Park High and East Boston High;
- Opening the Boston Arts Academy and the Young Achievers Pilot School;
- Purchasing and beginning renovations to the Mission Hill School;
- Completing the revitalization of 55 schoolyards; and
- Constructing modular classroom facilities at the Quincy Upper Pilot School.

School Building Assistance

The Commonwealth of Massachusetts School Building Assistance (SBA) program, managed by the Department of Education (DOE), is designed to assist cities and towns in building new schools or in renovating existing ones. Under the current program the City is eligible for up to 90% reimbursement on approved project costs.

In July 2000, the state legislature repealed the former school construction aid program and enacted Chapter 70B of the General Laws. The range of reimbursement rates under Chapter 70B remains unchanged although the method of determining the appropriate rate is different. Previously, the reimbursement rate was fixed by statute for each city and town. Under the current law, a formula involving equalized property valuations, per capita income and the percentage of low-income students in the school district are the key factors. In addition, projects can earn additional incentive points for re-using existing buildings, providing adequate maintenance, using construction management firms or meeting energy efficiency standards. For the first five years of the Act, districts with approved desegregation plans

will have ten points added to their reimbursement rate, and for the five years following that, five points will be added.

Reimbursement payments are made over twenty years on a level payment basis. Reimbursement payments are made to the City's General Fund and are included as part of the annual State Aid package. In FY02 the State reduced its annual funding of this program from approximately \$50 million to \$20 million annually. Due to this change in funding the city now expects annual reimbursements for the three new schools to begin no earlier than FY07. Reimbursement payments due between FY04-FY08 are forecast at \$92.5 million.

In March 2003, the Governor instructed the DOE to give only the most urgent FY03 project applications preliminary approval for inclusion on the priority waiting list. In addition, the DOE was directed to place a moratorium on FY04 project applications while the department and legislature prepared a comprehensive approach to restructuring the SBA program. In April, the DOE notified the City that the Burke High School project was among twenty-eight projects state-wide given preliminary approval subject to two conditions: first, final municipal votes must be taken by June 30th and second, completed applications must be submitted to DOE by August 29th. As a consequence, the City passed a loan authorization in late June and filed a completed DOE project application in August. Funding for the Burke project depends on gaining SBA approval and timing of the construction project will be reviewed with respect to the availability of State reimbursement.

LINC Boston Technology Plan

The City of Boston and BPS have committed to wiring schools to the Internet, providing computer access in the classroom and supporting teacher's professional development to effectively use technology to support student learning. LINC2 (Learning and Information Network for the Community), the BPS's second five-year technology plan, articulates the use of technology to support Focus on Children II and the six essentials of Whole School Improvement as follows:

- To support literacy and mathematics instruction for all students, including SPED and bilingual, and to prepare students for higher education and for careers using technology.
- To retrieve and analyze data to assess student learning and improve instruction.
- To provide and document professional development for all staff as they improve their understanding of the power of technology to enhance and customize instruction.
- To facilitate the identification and sharing of best practices in instruction.
- To support the sharing and alignment of resources.
- To connect families and community with student learning.

LINC2 will also continue the goals of LINC1 as follows:

- Complete networks and electrical upgrades at all schools.
- Provide professional development so that all teachers will be able to use technology thoughtfully to support student learning.
- Integrate technology with Citywide Learning Standards.
- Provide appropriate support, maintenance and upgrades.

Budget and Performance Goals

INTRODUCTION

In FY04, the City will be faced with many challenges, as departments must absorb budgetary reductions while protecting essential services. The need to account for resources used will be heightened and areas of service identified as not producing steady results will be scrutinized.

The City's strong program budgeting and performance monitoring system continues to provide a solid base of service level information for understanding the goals and objectives that support the Mayor's core priorities including providing every child with a quality education, creating affordable housing, lowering the crime rate, revitalizing Boston's neighborhoods and promoting a healthy lifestyle for all City residents. Detailed spending information integrated with promised levels of service strengthens the tie to accountability for allocated resources.

The City Charter contains legal deadlines and actions that must be followed in adopting the budget. The deadlines and formal actions, as well as the planned dates for the fiscal 2004 budget development process are shown below.

CONTINUOUS PLANNING CYCLE

Budget Development and Approval

Boston integrates goal setting, program budgeting, monthly performance reporting and financial tracking into a continuous planning and review cycle.

As a starting point in the cycle, departments prepare budgets within the financial parameters established. As such, department managers are responsible for determining what level of service can be supported with available resources.

The mid-year evaluation of current year projected results at this juncture may lead to the refinement of departmental objectives and outcomes intended to further the department's mission in the ensuing year. By redesigning processes to increase operational efficiency or realigning programs to enhance service delivery, the City adapts itself to the diverse and somewhat changing needs of its citizenry.

Action Required	City Charter	Date
Departments proposed budgets to Budget Office	No requirement	02/03/03
School Superintendent proposed budget to School Committee on or before 1 st Wednesday in February	Chapter 613 Acts of 1987	02/05/03
Mayoral meetings with departments	No requirement	March
School Committee action taken on budget on or before the 4 th Wednesday in March	Chapter 613 Acts of 1987	03/26/03
Mayor's recommended annual budget submitted to the City Council on or before 2 nd Wednesday in April	Ch.190, Acts of 1982 as amended by Ch.701, Acts of 1986	04/09/03
Public hearings held prior to budget adoption	No requirement	April – June
City Council definite action on recommended budget on or before 2 nd Wednesday in June	Ch.190, Acts of 1982 as amended by Ch.701, Acts of 1986	06/11/03
Mayor's approval of budget adopted by City Council on or before July 1, 2003 (Fiscal Year 2004)	No requirement	06/30/03

Funding requests and projected service delivery outcomes are informed by prior year results and help frame a series of policy discussions held with the Mayor. Tradeoffs under alternative service delivery options may be analyzed, with the end result a recommended budget submitted to the City Council for public deliberation.

The final approved budget marks the Mayor's commitment to provide the citizens of Boston with a comprehensive plan to deliver quality services at the highest possible level.

Budget Accountability

Budget implementation follows City Council approval. Financial and operational performance is monitored on an ongoing basis via monthly revenue and expenditure variance reports and the Boston About Results (BAR) program (described below) to ensure accountability for performance. Mayoral policy meetings are held mid-year to take a comprehensive look at front-line agency performance to ensure that departmental strategy is proving effective in the context of actual results.

Department Performance Measures

Managers cannot manage what they cannot measure. Monitoring performance entails an emphasis on identifying appropriate methods for measuring the success or failure of programs to realize Mayoral priorities. In an era of constrained growth, the sustainability of programs may be jeopardized if resources allocated are not yielding positive returns. It also means tracking and monitoring performance over time and using this information to reassess operations, ensuring the continuation of quality service. For example, the City's Public Works Department completed the purchase of all utility-owned streetlights last year, adding approximately 24,000 lights to its inventory. Keeping the number of streetlight outages repaired in 5 days to an acceptable service level will prove challenging and will continue to be monitored closely throughout the year.

Performance measures are developed as part of the planning process and cascade down from the mission, goals and objectives identified by departments, with the emphasis always on serving the department's customers. Performance

measurement becomes the language that gives clarity to program objectives, drives decision-making and focuses the appropriation process on outcomes. Analyzing cause and effect throughout the year provides valuable information used in improving everyday program management.

Boston About Results (BAR)

Citizens entrust government with the responsibility to use their tax dollars wisely. We are constantly challenging ourselves to improve how we deliver services, so that city government is the best it can be. In FY03, an improved tool to monitor performance was unveiled to strengthen the City's ability to focus on results. Performance data entered monthly is available immediately for management and analyst review. Utilizing technology greatly enhances the City's capabilities to track and analyze emerging trends that may pose additional challenges during the year. Coupled with access to the Mayor's 24 Hour Constituent Service Hotline, timely information provides the opportunity to realign resources where necessary in order to continue to meet set goals.

Continuous Service Delivery Improvement

The FY04 budget development process has been guided by the adverse fiscal realities that the City of Boston now faces. However, the City is poised during this time of fiscal uncertainty to identify opportunities for efficiencies and to sustain the momentum that positive change can provide. It is important to remember that restructuring government is an iterative process that overlaps budget cycles. The City has already taken measures to improve on the structure and responsiveness of government. Some of the measures under consideration or already taken are as follows:

- Building on the success of the newly created Boston Centers for Youth and Families last year, the FY04 Budget has been framed around a new organizational structure that will ensure the continuation of quality programs and services in every neighborhood and build on the strong government-community center council

partnerships. A new clustering site model will promote the efficient use of space, staff and resources and ensure high standards of service delivery according to neighborhood needs.

- The Mayor has organized the operations of the public works and transportation departments into a new cabinet entitled "Streets, Transportation & Sanitation," in order to facilitate the consolidation of functional overlaps between the two departments. Creating a structure that emphasizes process and common districts will lead to greater synergism in workflow. Citizens care about clean, well-lit, efficient infrastructure that moves vehicular traffic and pedestrians safely. The coordination of the efforts of dispatch, work-order flow and contract supervision, along with integrating permitting functions and controlling inventory, will eliminate redundancies and enable service to be provided more efficiently.
- As part of the FY04 budget process, City departments were required to assign activity codes to costs associated with specific activities. Out-of-school time, permitting and maintenance costs are examples of the activities being tracked by the budget office in an effort to harness the capabilities existing across departments. Information gathered through activity based costing will provide a cross-functional, cross-departmental view of municipal activities.
- The Police Department is working to strategically review staffing patterns and public safety deployment. The Commissioner continues to work with the union to move uniform officers out of administrative jobs into direct service positions. The improvement of information management through enhanced technology is also ongoing effort.
- The Fire Department has sought efficiencies in deployment as well. A review of all internal and administrative functions resulted in reductions in areas that minimize the impact on response time and quality of fire suppression service.
- The City will work with the City Council to implement an increase in the towing fee, formerly restricted by state law, as it seeks to implement a lower cost alternative for towing operations.
- Examine cost savings and efficient utilization of resources realized by converting weekly payroll to biweekly, the general business standard.
- Ascertain the cost effectiveness and efficiency of maintaining an in-house animal shelter and printing department.
- Continue to take steps to centralize the marketing function by creating a consistent message and a single fund raising strategy shared across the City.
- Explore ways to streamline the permitting function to enhance customer service.



Financial Management

Financial Management of the City

Managing the City's finances involves both a strategic and operational component. Strategically, the finances must be managed to accommodate fluctuations in the economy and resultant changes in revenues. Operationally, the City must put in place clear financial goals, policies, and tools to implement the strategic direction.

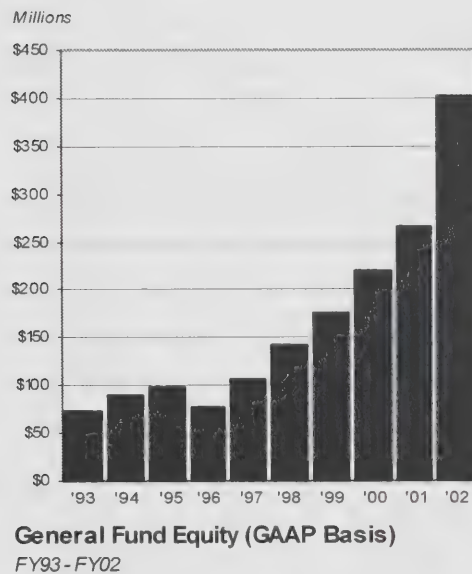


Figure 1

Over the previous fifteen years, the City's management of its finances has resulted in an upward trend in general fund equity. This trend was interrupted by only two events: the dramatic state aid reductions in FY91 and FY92; and, the merger of the city's two public hospitals with a private hospital to form a new private entity in 1996. It is expected that the latter event improved the City's future financial outlook by shielding the City from the likely growth in hospital subsidies that would have been required without the merger. (Figure 1.)

General Fund Equity

The City implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, among others for FY02. GASB No. 34 redefined 'enterprise funds' resulting in two new enterprise funds, the Convention Center Fund and the Hospital Bond Fund. Both funds were established for activities related to bonds for which revenue streams have been pledged as security repayment. GASB No. 34 also fundamentally changed the treatment of liabilities and receivables in the General Fund. As a result of these changes, FY02 General Fund equity appears artificially high as compared to prior years displayed without these changes (Figure 1). For more information on the changes and their effects please refer to the City's Comprehensive Annual Financial Statements for Fiscal Year Ended June 30, 2002.

It is expected that the actual results at close of FY03 and FY04, will not add significantly to the upward trend in general fund equity that the City has experienced since FY97, due to the difficult budgets of these years as a result of national recession. The City hopes to preserve its policy of maintaining a GAAP Undesignated Fund Balance in the General Fund of 10% or higher than GAAP General Fund Operating Expenditures throughout

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
General Fund
Years ended June 30 2002 and 2001
(in Thousands)**

	\$	<u>2002</u>	\$	<u>2001</u>
Revenues:				
Real and personal property taxes		990,848		874,868
Excises		111,114		72,645
Payments in lieu of taxes		36,332		72,720
Fines		60,601		57,840
Investment income		14,596		26,289
Licenses and permits		33,325		36,795
Departmental and other		62,200		58,306
Intergovernmental		492,299		493,278
Total revenues		<u>1,801,315</u>		<u>1,692,741</u>
Expenditures:				
Current:				
General government		77,019		67,913
Human services		6,434		5,464
Public safety		405,844		373,362
Public works		74,651		77,241
Property and development		48,774		41,300
Parks and recreation		16,230		15,547
Library		28,695		30,360
Schools		627,653		611,368
Public health programs		64,537		-
County		4,537		6,030
Judgements and claims		2,724		5,011
Retirement costs		82,034		84,970
Other employee benefits		107,701		90,501
State and district assessments		67,769		66,788
Capital outlays		5,177		4,057
Debt Service		115,366		123,977
Total expenditures		<u>1,735,145</u>		<u>1,603,889</u>
Excess(deficiency) of revenues over expenditures		66,170		88,852
Other financing sources (uses):				
Operating transfers in		1,778		1,678
Operating transfers out				-
Transfers from component units				17,706
Transfers to component units				(62,476)
Total other financing sources		<u>1,778</u>		<u>(43,092)</u>
Net change in fund balance		67,948		45,760
Fund balance - beginning, restated(Note 3)		334,161		220,700
Fund balance - ending	\$	<u>402,109</u>	\$	<u>266,460</u>

these years. The City's FY03 financial statements are expected to be available in November 2003.

Budgetary Fund Balance

Fund Balance can be appropriated for use during the fiscal year. Fund Balance, or Budgetary Fund Balance, is more commonly referred to as "Free Cash" when used this way. This item is most simply described as the portion of available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending. The law governing the calculation and availability of budgetary fund balance for cities and towns is Chapter 59, section 23 of Massachusetts General Law, and is administered by the Massachusetts Department of Revenue. The FY04 Budget assumes the use of a \$25.0 million appropriation from the fund balance of the general fund.

Fund Structure and Use

The accounts of the City are organized on the fund basis. The City's fund structure includes a General Fund, Special Revenue Fund, Capital Projects Fund, Trust Fund and Enterprise Funds. The General Fund is the only fund for which a budget is legally adopted and is the chief operating fund of the City. The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted for specific purposes. This fund accounts for a number of federal and state grants that provide additional support to department programs. It also accounts for money that has been set aside, generally by state statute, that may be used to support the City's general fund operations. The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by Enterprise Funds and Trust Funds.

The City's budget presentation reflects the activities of the General Fund, the Special Revenue Fund and the Capital Project Fund that support City departments.

The City's operating budget is supported by available funds transferred and appropriated from the Special Revenue, Trust and Capital Project Funds. The three available funds that the City appropriates each year are parking meter revenues (Special Revenue Fund) to support the Transportation Department, cemetery trust monies (Trust Fund) to support the City's

maintenance of its public cemeteries, and surplus property disposition proceeds (Capital Projects Fund) to fund a risk retention reserve, which is discussed later in this chapter. Additional discussion about these revenue sources used to support the operating budget can be found in the Summary Budget section.

Figure 2 provides a history, as well as projected changes in fund balances, for the available funds used to support the City's operating budget.

Parking Meter Fund				
Fiscal Year	Beginning Year Balance	Funds Out	Funds In	Ending Year Balance
FY97	11.902	(8.500)	8.558	11.960
FY98	11.960	(8.500)	9.673	13.133
FY99	13.133	(1.500)	7.736	19.369
FY00	19.369	(5.031)	8.243	22.582
FY01	22.582	(6.677)	7.923	23.828
FY02	23.828	(2.790)	8.821	29.859
*FY03	29.859	(10.000)	7.700	27.559
*FY04	27.559	(10.000)	10.700	28.259

Notes: (\$millions), *projected

Cemetery Trust Fund				
Fiscal Year	Beginning Year Balance	Funds Out	Funds In**	Ending Year Balance
FY97	8.324	(0.700)	2.701	10.325
FY98	10.325	(0.700)	2.119	11.744
FY99	11.744	(1.589)	2.008	12.163
FY00	12.163	(1.724)	3.179	13.618
FY01	13.618	(1.678)	1.301	13.240
FY02	13.240	(1.778)	-0.678	10.784
*FY03	10.784	(1.849)	0.500	9.435
*FY04	9.435	(1.849)	1.000	8.586

Notes: (\$millions), *projected, **Includes appreciation

Surplus Property Disposition Fund				
Fiscal Year	Beginning Year Balance	Funds Out	Funds In	Ending Year Balance
FY97	33.862	0.000	0.047	33.909
FY98	33.909	0.000	0.000	33.909
FY99	33.909	0.000	0.000	33.909
FY00	33.909	0.000	0.191	34.100
FY01	34.100	0.000	8.474	42.574
FY02	42.574	0.000	13.300	55.874
*FY03	55.874	(14.876)	0.000	40.998
*FY04	40.998	(4.876)	0.000	36.122

Notes: (\$millions), *projected

Figure 2

Auditing and Budgeting Practices

The City prepares its comprehensive financial reports in accordance with generally accepted accounting principles (GAAP). However, accounting practices established by the Commonwealth's Department of Revenue, the so-called budgetary basis method of accounting, are used in the annual budget and property tax certification process. Budgetary basis departs from GAAP in the following ways:

- (a) Real estate and personal property taxes are recorded as revenue when levied (budgetary), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budgetary), as opposed to a reservation of fund balance (GAAP).
- (c) Certain activities and transactions are presented as components of the general fund (budgetary), rather than as separate funds (GAAP).
- (d) Amounts raised for the prior years' deficits and available funds from prior years' surpluses are recorded as revenue items (budgetary), but have no effect on GAAP revenues.

In addition, there are certain differences in classifications between revenues, expenditures

and transfers. The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2001.

STRATEGIC FINANCIAL MANAGEMENT

Maintaining a healthy financial base that fully supports City services according to mayoral priorities requires constant vigilance. This work is reflected in restructuring and reshaping City services, new financial management systems, efforts to secure sound recurring revenues, responsible spending adjustments in light of revenue growth limitations and a balanced budget. A balanced budget pertains to Massachusetts General Laws Chapter 59, Section 23, which details the State Department of Revenue's tax rate certification process, during which municipalities must raise any deficits from prior year, and balance all appropriations with estimated revenues for the current year, in order to obtain authorization to issue property tax bills. Inevitable fluctuations in the economic cycle mean that Boston must expect and be prepared to affirmatively tackle the financial challenges ahead.

Deciding to build the City's new convention center, for example, called upon the financial management skills of City officials. Sharing a

Adjustments Between Budgetary Basis and GAAP Basis of Accounting for FY02

(in thousands)

	Revenue	Expenditures	Other Financing Sources (Uses), Net	Excess (Deficiency) of Revenue and Other Financing Sources
<u>As reported on a budgetary basis</u>	<u>1,788,300</u>	<u>1,783,133</u>		<u>5,167</u>
<u>Adjustments:</u>				
Revenues to modified accrual basis	66,740			66,740
Expenditures, encumbrances and accruals, net		3,959		(3,959)
<u>Reclassifications:</u>				
Parking meter revenue and expenditures to a special revenue fund	(2,790)	(2,790)		
Debt service expenditures	-	-		
State-funded teachers' retirement costs	(49,157)	(49,157)		
Trust fund revenue	(1,778)		1,778	
<u>As reported on a GAAP basis</u>	<u>1,801,315</u>	<u>1,735,145</u>	<u>1,778</u>	<u>67,948</u>

significant portion of the cost of the project with the state will be accomplished without impairing the future delivery of city services. Also, by means of switching from market valuation of assets to actuarial valuation of assets, the City has managed its pension funding schedule during the market's last several years of volatility without its becoming a factor in reducing city services.

The City's revenue growth had been strong from FY94 through FY02. FY03 and FY04, and perhaps FY05, will be affected by the national recession of 2001 and the state budget crisis. Consequently, Boston budgeted conservative revenue growth in FY03 and revenue losses in FY04 – the first time since FY93 that the City's revenue will total less than the prior year. The City's budget will be reduced in spite of revenue enhancements, program cuts and consolidation of departmental services. Currently, FY05 projections return to limited growth in revenue as the City continues to be affected by a projected \$1 billion to \$2 billion structural deficit in the state budget.

Below are descriptions of some of the financial management tools the City has utilized to achieve positive results.

Strategic Economic Development

At the core of city government finances is a healthy Boston economy for all citizens. A critical area for economic development in Boston is the building of a new convention center. With the leadership of the Mayor, Governor, and legislative leaders, the Boston Convention and Exhibition Center is on schedule for substantial completion in spring 2004. Using \$157.8 million in loan authorization by the City Council, the City completed site acquisition and groundbreaking occurred in spring of 2000. The loan is supported by hotel excise revenue from new hotels and from other new revenue sources. The Commonwealth is covering the cost of construction.

Additionally, as interest in commercial development in Boston continues, the Mayor has clearly stated that all decisions on when, where and what to build will be made with the interest of the City as a whole in mind.

Maximizing Return on Investment

Through various channels, the City's administration works to maximize the service delivery provided per dollar of revenue. In 1993,

city government was reorganized into a cabinet structure that forces accountability. Today, work continues to constantly reassess the management organization and distribution of finances toward priority goals that maximize return on investment. The Office of Budget Management (OBM) continues to inform management of financial decisions through service-based budgeting and objective assessments of cost efficiencies and service delivery in certain areas.

Ongoing investment in the city's resources – people, property and systems—is key to guaranteeing solid service delivery for the future. Capital investments are made as part of the annual city budget, weighing changing service needs with the need for adequate building maintenance and upgrading. Human resource training has included specialized management training and a new performance appraisal system. The City's technology needs are continually assessed and updated on an ongoing basis. The City has recently implemented its first enterprise wide management information system.

Diversify the City's Revenue Stream

Eighty percent of total general fund revenue comes from just two sources, the property tax and state aid from the Commonwealth. Both of these revenues are strictly controlled by state law and state legislative action. Therefore, the City remains alert to the possibility of diversifying its revenues. For example, in order to support the funding for the convention center, the City did not draw upon the current revenue base. Instead, new City revenue sources were established and earmarked for convention center funding. Among the city and state funding sources is an increase in the hotel excise tax in Boston and Cambridge, the full hotel excise tax for new hotels, the earmarking of certain state taxes in a convention center district, a car and truck rental fee, and the sale of additional taxi medallions. These revenue sources are targeted at those who will use the convention center or businesses that will profit from convention center activity, rather than burdening city residents. In spite of the increase, the hotel tax rate remains competitive with other major U.S. cities.

With substantial cuts in state aid already made in FY03 and additional cuts expected in FY04, along with waning excise and other revenue from the

lagged effect of economic recession, the Mayor continues to express the City's desire to implement new revenue streams for the future growth of the City.

Specifically, the Mayor filed legislation to enact a 1% local option tax on prepared food and beverages sold in municipalities in addition to the 5% state tax already in place. If the Legislature were to adopt this local option revenue stream, the City could recover an estimated \$17 million annually. A meals tax is a good fit for what has become a strong tourist and travel economy in Boston. It would provide revenue growth at a nominal rate without a heavy burden on residents, tourists or travelers with the total rate of taxation remaining the lowest of any major City.

Additionally, the Mayor filed legislation to enact local option taxes on parking in commercial parking lots and on entertainment services such as concerts, sporting events and movies. The City, like other regional urban centers, expends considerable resources in traffic, police, fire and public works services in support of these businesses. But unlike other cities, Boston does not have any taxing authority to recover those costs. Together, these local option taxes could generate over \$22 million annually.

Lastly, the City, with City Council approval for some, will raise several smaller fees that have been level for years, resulting in a nominal amount of revenue, raise parking fines for violations that lead to towing by the City transportation department, and raise some parking meter fees to generate another approximately \$10 to \$12 million.

As most of these revenue initiatives require approval from another political body, their passage is not assured. The City will be closely watching deliberations on these matters of critical importance and will continually stress the importance of a diversified and equitable revenue system.

Protect the City from Sudden, Unexpected Catastrophic Losses

Risk management efforts work to protect the City from sudden adverse asset losses, whether caused by a natural disaster, workplace injuries, a drop in revenues or sudden cost increases. Risk

prevention efforts take place in all departments, for example: MIS maintains back-up tapes for computerized data; the Municipal Police implement a citywide security system; Risk Management provides departmental incident information; operating departments diversify vendors and implement long-term contracts. Although any asset loss has a financial impact, specific efforts to protect city finances include diversifying the City's revenue sources, maintaining a conservative debt ratio and a risk reserve, and prudent purchase of insurance. Risk prevention and financing efforts are further described later in this chapter.

Achieve a More Rational Separation of State and Municipal Obligations

Local policy judgments, rather than state mandates, must drive financial decisions. The City's greater-than-average share of county corrections costs, and the cost of state mandated charter schools are two clear examples of vulnerability to state mandates that do not necessarily reflect local priorities or ability to pay.

The City has fought for and received a reduced share of county correction costs in the past but a substantial inequity still remains. In the FY04 Budget, the City has moved presentation of its share of county corrections costs to the fixed costs section of the budget summary to reflect the mandatory nature of these costs and to group non-appropriated budget items more consistently.

In FY99, the state recognized the cost impact of charter schools on hosting municipalities by partially reimbursing hosting communities for the cost of charter schools. But recently, the last two budgets proposed by the Governor (FY02 and FY03) have included a reduction in this reimbursement.

In recent years, the state itself has pursued a more rational separation of state and municipal obligations. The state recently withdrew from any obligation for future funding of cost-of-living adjustments for local government retirees. Meanwhile, it has continued to increase its support for local public education in which it bears responsibility for equalized and adequate public education.

These 5 items: strategic economic development, maximizing return on investment, a more diversified revenue base, protection against catastrophic costs, and rational separation of city and state obligations are prerequisites to the City's future financial health.

RESPONSIBLE OFFICIALS AND AGENCIES

The Mayor ultimately directs all of Boston's financial operations. The Mayor is the chief executive officer of the City and has general supervision of and control over the boards, commissions, officers, and departments of the City.

The City's Chief Operating Officer directs administrative services and labor relations.

City budget appropriations for all departments and operations of the City and Suffolk County, except the School Department and the county courts, are prepared by the Office of Budget Management, under the direction of the Chief Financial Officer.

The following six departments, which are included in the Chief Financial Officer's Cabinet, have major roles in the City's financial structure.

- The Treasury Department collects revenues due to the City and Suffolk County, and pays all amounts due for payrolls and to outside vendors. The Chief Financial Officer serves as the City's Collector-Treasurer. The Treasury Department also manages the investment of City funds, and supervises borrowings by the City in the form of either short-term or long-term debt.
- The Auditing Department maintains internal controls, manages grant funds, provides financial reports, maintains the financial records for the City and County, and approves all payments made by the City and County. The City Auditor is an ex-officio member of the State-Boston Retirement Board.
- The Assessing Department, managed by the Commissioner of Assessing, supervises the valuation, for tax levy purposes, of all real and personal property located in the City.
- The Office of Budget Management, in addition to overseeing the operating budget, also prepares and monitors the City's capital plan and coordinates the long-range capital

planning activities of City and School departments.

- The Purchasing Department procures all supplies, materials, and equipment for City and County departments.
- The Retirement Board oversees the City's retirement system.

Three decision-making bodies also fill prominent roles in the City's budget process. The legislative body of the City is the City Council, which consists of 13 members serving two-year terms. Four are elected at-large and nine are elected from geographic districts. The City Council may enact ordinances and adopt orders, which the Mayor may either approve or veto. Only the Mayor can originate appropriation orders. Except for orders borrowing or appropriating money and for local adoption of a state statute involving the expenditure of money, the City Council may override a mayoral veto by a two-thirds vote. The City Council may reject or reduce a budget or budget item submitted to it by the Mayor, but may not increase it.

The City's public schools are under the control of the School Committee, which is appointed by the Mayor. The mayoral appointed governance structure was reaffirmed in a 1996 referendum by a 70% to 30% margin. The School Department operating budget is submitted to the Mayor and the City Council and is subject to their approval as part of a budget process parallel to, but separate from, the City and County.

Until FY91, the School Department regularly incurred operating deficits. Chapter 613 of 1987 placed stricter controls on the School Department's appropriation process, in an attempt to limit the potential for overspending, and strengthened the powers of the Superintendent vis-a-vis the School Committee. The Department, however, continued to deficit-spend. As a result, the City needed to ensure that other City spending remained below available revenues in order to offset the School Department deficits. These annual School Department deficits continued through FY90, ending only with the creation of an appointed School Committee accountable to the Mayor.

The Boston Public Health Commission is governed by a seven-member board with six of the members

appointed by the Mayor, subject to City Council confirmation. It is responsible for the implementation of public health programs in the City and provides financial support for various health services. The Boston Public Health Commission must submit a revenue and expenditure budget to the Mayor. If and when the Mayor accepts the budget (essentially the deficiency between the revenues and expenditures), then it is submitted with the rest of the City and County budget to City Council.

INTERNAL MANAGEMENT CONTROLS

The City has established a system of internal management controls. These controls are designed to maximize revenue collections, manage operating and capital spending, evaluate infrastructure needs, and formalize the City's internal procedures. Major components of the City's system of financial management controls are discussed in the following paragraphs.

Capital Planning

The Office of Budget Management's Capital Budgeting Program (CBP) is responsible for managing the capital budget of the City. It has overseen the significant increase in the level of infrastructure investment, resulting in the protection and preservation of the City's capital assets and the creation of jobs in the construction sector. CBP's mission is to evaluate the condition of the City's capital stock, forecast the timing and financial requirements of new construction and rehabilitation, and recommend allocation of current and future resources to meet the City's infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses are taken. For example, there has been a greater need for construction and renovation of schools due to changes in enrollment, educational initiatives and accreditation needs, and this has been done with a focus on maximizing the reimbursement from the state's school building reimbursement program.

CBP evaluates and refines the relationship between the City's capital needs and resources as the City moves through each fiscal year. This process is documented by an annually updated five-year capital plan. Since FY99, the proposed capital plan has been integrated with the operating budget. The FY04-08 Capital Plan

reflects the administration's commitment to comprehensive planning and investment by spotlighting projects ranging from future economic development projects to strategies for neighborhood revitalization.

In addition to its planning functions, CBP also plays an ongoing project oversight and supervisory role during the implementation phase of its capital projects. CBP reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

Program-Based Budgeting and Assessments

Since FY88, the City of Boston has used a program-based budgeting system to track expenditures and service levels by major functions or programs. This budgeting system complies with the standards of the Government Finance Officers Association, which has consistently recognized the City's efforts with its Distinguished Budget Presentation Award.

The City has built on this base of budget and performance information to design a system of departmental accountability for service outcomes, making sure services are delivered at the level expected, with a focus on customer satisfaction and service efficiency. The Office of Budget Management (OBM) plays a central role in the collection and analysis of performance data, ensures proper documentation of results, and assists departments in pursuing opportunities for improvements. All financial commitments by departments are first reviewed by OBM for conformance with service priorities and funding availability.

Debt Management

The Treasury Department manages all City borrowings. The Treasury Department has focused on the timing of borrowings to take advantage of favorable market conditions and has carefully managed the City's cash flows to help eliminate the need for short-term borrowings. The Treasury Department has established a series of debt management guidelines. The guidelines set forth the City's management policies toward rapidity of debt repayment, debt affordability, the limitation on the level of variable rate debt the

City will employ, target savings for refundings, and reporting to the financial community and the rating agencies.

The City uses a comprehensive, interactive debt capacity model to assist City debt management administrators in evaluating the potential impact of debt issues on cash flow, credit and statutory debt capacity. Two mainstays of the City's positive debt service position have been the relative stability of the annual debt cost to remain below 7% of total general fund expenditures and adherence to rapid debt retirement ensuring that at least 40 percent of outstanding principal be retired in five years, and 70 percent in ten years.

Other factors have contributed to this favorable debt position in the recent past. The City took maximum advantage of low interest rates and issued four large refundings of the City's general obligation debt in April 2001, August 2002, November 2002 and February 2003. The City has managed its cash flow such that short-term revenue anticipation notes have not been needed. This has been possible mainly because of the switchover from semi-annual to quarterly billing for property tax and from semi-annual to quarterly distribution of state local aid. The overall success in the City's adherence to its debt management policies and the City's image in the capital markets have contributed to bond rating upgrades, and, most recently, in February 2003 the City was awarded ratings of Aa2, AA- and AA- (without regard to a bond insurance policy) from Moody's Investors Service, Standard and Poor's and Fitch IBCA, Inc., respectively. The City also utilizes lease-purchase financing of equipment with a two to seven year useful life. Annual lease-purchase financing has totaled \$7 to \$10 million for vehicles, computers, and lighter equipment.

Pension Management

As required by law, the State-Boston Retirement System (SBRS), of which the City is the largest member, performs a full valuation at least once every three years. The system uses the valuation to determine the total system liability and the annual funding requirement. The SBRS hires an investment manager who oversees the various fund managers of the SBRS pension assets. The long-term investment performance of the SBRS has exceeded the long-term investment assumption of 8% upon which the funding

schedule is partly based, recording an average annualized return from January 1, 1985 through December 31, 2002 of 9.53%. Its intermediate five-year (ending in 2002) average annualized return of 2.72% and short-term (2002 only) return of minus 9.73% reflect the historic downturn in the stock market that has affected nearly all pension investments. (In 2002 the median rate of return for all Massachusetts' public pension funds was minus 8.76%.) Over the years, the City has worked with the SBRS to maintain a conservative and responsible pension-funding schedule. This has included maintaining a conservative investment rate of return assumption and a funding schedule that fully funds the system several years earlier than the statute requires.

Risk Management

Across the City, risk management efforts are made to prevent, minimize, and finance unexpected losses to the City's human, financial and physical assets. The Office of Budget Management's Risk Management Program works to maximize the effectiveness of this intradepartmental effort by reviewing citywide risk costs, assisting risk management efforts, and implementing a citywide risk financing strategy.

Following is further discussion of certain types of losses and how they are managed:

- The total cost of employee health insurance exceeded \$145 million in FY02. The Office of Human Resources (OHR) manages healthcare costs through competitive bidding and annual negotiations of benefits with HMO healthcare plans and a self-insured indemnity plan. The average per-employee annual cost increase for the past ten years has been contained at 6% per year, with higher increases in recent years.
- The Office of Human Resources and the Police and Fire Departments manage citywide employee injury costs, which total over \$50 million per year. Specific efforts continue in the Fire department to contain injury costs, which represent 40% of the citywide total.
- The City's low liability claims costs total between \$3 million and \$7 million annually. Managed by the City's Law Department, legal claims are limited by MGL Chapter 258, which caps the City's liability for most claims.
- Unexpected losses to physical city property have been minimal, with the exception of the 1998

flood at the McKim Library, and are managed by individual operating departments.

- Because the City's risk financing program stresses departmental accountability, typical risk costs for injuries, legal claims and property losses are funded by individual departments. The City budget in turn, is protected from a large loss through a risk retention reserve, that will reach a \$6.5 million balance in 2003, and catastrophic property insurance coverage that limits property losses which exceed a \$20 million retention.

Property Tax Collections

The collection of property taxes has been improved by enhanced tracking systems and more thorough collection procedures and notifications. This has resulted in an increased rate of collection.

The City has implemented an aggressive enforcement program that continues to reduce the number of tax accounts that are delinquent, and to discourage new delinquencies. The City achieved a property tax collection rate of 98.6% of the FY02 gross levy as of June 30, 2002. The City's enforcement program includes the adoption of stricter guidelines for handling delinquent taxes, utilizing a variety of collection remedies authorized by state statute and working closely with the Commonwealth to refine the tax collection system. For example, the City, following requisite approval from the Massachusetts Department of Revenue, was the first municipality in the Commonwealth to amend tax bills to include past due amounts. The City has implemented an automated tax information hot line that allows taxpayers to call from 7 a.m. to 10 p.m., seven days a week, for updated tax balances, duplicate tax bills or information on other tax related questions.

In addition, during FY99, the City combined customer service for the valuation and collection aspects of property taxes that are traditionally administered separately by the City's Assessing and Treasury departments. These changes, coupled with letter writing campaigns to first-time delinquents, have resulted in a significant reduction in the number of past due accounts.

Expenditure Controls

In addition to the management systems described above, the City operates under several statutory financial control systems. Certain controls established in the 1982 Funding Loan Act and its 1986 amendments set limits on flexibility in financial administration. Under the 1982 Funding Loan Act, for example, until April 15 of each year, the Mayor is authorized to reallocate no more than \$3 million.

Several other financial controls were enacted by state law and implemented during the 1980s. An expenditure allotment system prevents departmental overspending of personnel appropriations. Additional state law provisions are directed at the control of School Department spending. These controls, teamed with conservative and cautious estimates of annual revenue, have aided the City in avoiding operating budget deficits every year since FY85, and have aided the School Department in avoiding operating budget deficits every year since FY90.

Reserve Fund

As required by law since 1986, the City has been maintaining a reserve fund equal to 2 1/2% of the preceding year's appropriations for all City and County departments except the School Department. The fund may be applied to extraordinary and unforeseen expenditures after June 1 in any fiscal year with the approval of the Mayor and the City Council. To date, this budgetary reserve has not been utilized. As of June 30, 2002, the reserve fund had a balance of \$21.0 million. The City more than fulfilled the FY03 Tregor Reserve requirement to add \$485,000 to the reserve before the close of FY02 by adding \$1 million. The City will fulfill the FY04 Tregor Reserve requirement to add approximately \$150,000 to the reserve before the close of FY03.

Accounting System

Financial management is supported through the City's PeopleSoft System. This computerized financial management and human resources system is designed to track standard accounting functions such as revenues, expenditures, accounts payable, accounts receivable and general ledger. In addition, the PeopleSoft system performs the specialized functions of encumbrance control, fund accounting and grants

management, as well as other accounting and budgeting functions. The utilization of this system has improved the financial monitoring and the reporting of funds management. On-line access to financial information allows department managers to evaluate directly the financial performance of their departments and specific programs within their departments.

The Auditing Department has developed a fiscal year closing process that limits and controls departmental appropriation reserves through encumbrances and closely monitors the amount of prior year reserves carried forward, which maximizes the City's undesignated fund balance. In addition, the process allows for the year-end closing and accompanying financial statements to be completed in an efficient and timely manner. The Auditing Department monitors payment lag times and citywide vendor payments. Both the tracking and scheduling of vendor payments ensures timely payments to vendors and enhances cash management. Payments to major utilities such as Keyspan and Nstar are monitored by a system that addresses disputes efficiently, thereby ensuring application of credits and the elimination of late charges.

Management Letters

Each year, following the completion of the financial statements, the City's independent auditors deliver a management letter containing comments and recommendations on internal financial controls. The current management letter indicated no material weaknesses in the City's management. Specific management improvements have been recommended in the management letters, and many of the controls that the City has implemented originated from the auditors' recommendations. The auditors have commented favorably in successive management letters on the City's progress in addressing the auditors' suggestions. Through its own efforts and, when required, through appropriate legislation, the City intends to continue to modify and improve its internal financial controls with the advice of its auditors.

Contracting Procedures

The Uniform Procurement Act, Massachusetts General Laws Chapter 30B, enacted by the Commonwealth in 1990 (the UPA), creates uniform procedures for the contracting of services

and supplies by all municipalities in the Commonwealth. The Auditing Department, working with the City's Law Department, has developed and implemented internal processes to conform City contracting procedures to the requirements of the UPA and other statutes specifying required contract procedures.

Capital Planning

OVERVIEW OF CAPITAL PLANNING

Boston's Five Year \$1.2 billion Capital Plan is an investment program for the City's future. The underlying framework for the plan emphasizes (1) the strategic use of infrastructure to promote economic development, neighborhood revitalization, quality education, health care, and public safety, (2) comprehensive planning to lay the foundation for future growth, and (3) effective government management to provide leadership and vision to deliver necessary municipal services efficiently.

The Office of Budget Management (OBM) is responsible for managing the City's capital plan and budget. OBM coordinates the evaluation of capital requests, forecasts the timing and financial requirements of new construction and rehabilitation and recommends the allocation of current and future resources by monitoring capital expenditures.

Capital Planning Process

Capital needs and resource availability are assessed annually through a capital planning process that results in a five-year capital plan. The first year of the spending plan is considered the City's capital budget and expenditures against this budget are closely monitored. To emphasize the balance between need and resource availability, the budget document (in Volumes II and III) includes both capital authorizations and expenditure projections for each project.

Steps in the Process

The process begins with a capital improvement project request period where all departments have an opportunity to identify their facility, equipment, infrastructure and planning needs in a systematic manner and to forward their proposals to OBM for funding consideration. The development of department project requests may involve both internal assessments of current need as well as a review of external constituent requests.

The departmental requests must be comprehensive and meet threshold criteria established each year. Project requests include cost estimates, descriptions of the

proposed scope of work, useful life statements and project justifications related to the primary criteria.

All capital improvement projects requesting funding consideration this year had to meet at least one of the following threshold criteria:

- Complies with the Americans with Disabilities Act (ADA)
- Improves health and safety
- Supports economic development
- Enhances general government effectiveness
- Mitigates an environmental hazard
- Responds to a legal, legislative or administrative mandate
- Preserves existing municipal facilities

The total cost of a proposed project must also consider its long-term effect on the City's operating budget. Accordingly, project requests also include information describing the proposed projects anticipated effect on personnel, utilities, maintenance and supply costs as well as expected changes in service demand or delivery of departmental programs. As a practical matter, it is assumed that certain types of projects such as energy conservation/efficiency (i.e. heating system upgrades, roof and window replacements) provide operating savings and OBM continues to work with departments to measure these savings.

Finally, federal tax law regulations included in the 1986 Federal Tax Reform Act require a review of the submissions to determine the extent to which private purposes or benefits exist for each project. This review is necessary for Boston to maintain its tax-exempt financing status.

New capital requests that are recommended for funding are placed into a multi-year spending plan along with projects previously authorized. The Mayor submits the capital plan to the City Council each year. The City Council, in turn, holds public hearings to consider approving project authorizations. This year's capital plan identifies 506 new and continuing projects and proposes \$71.8 million in new project authorization.

Financing the FY04-FY08 Capital Plan

Financing for the capital plan is derived from the following sources:

General Obligation (G.O.) Bonds

General obligation bonds represent 65% of all project funding. This year's plan assumes \$410 million in new general obligation borrowings over the next five years to support ongoing capital needs. In addition, the City expects to issue approximately \$96 million in FY06 to retire bond anticipation notes currently financing the construction of two new middle schools and a new K-8 school.

Bond Anticipation Notes (BANs)

The financing plan for the three new schools is designed to take advantage of the reimbursement of funds from the State under the School Building Assistance Program (SBA). Under SBA, the City expects to receive approval for 90% reimbursement on approved project costs for the three schools. To best match the projected cash flow from SBA, the financing for these schools was structured as bond anticipation notes (BANs) for the construction period with permanent financing structured to mirror the reimbursement payments from the State. In a slight departure from this strategy, the City issued \$25 million in G.O. bonds in February 2003, to retire the first bond anticipation note. The debt issuance was accelerated to take advantage of current low interest rates for a portion of the project that was not reimbursable by the State.

The City's share of the Boston Convention and Exhibition Center (BCEC) project which totals \$157.8 million was financed by bond anticipation notes issued in May 1999 and February 2000. The City retired all outstanding notes with cash from the hotel excise fund established with the BCEC legislation and with the proceeds of Convention Center Special Obligation Bonds issued in April 2002. (See Major Capital Projects - Boston Convention and Exhibition Center)

Highlights of the FY04-08 Capital Plan

Education

- Orchard Gardens New K-8 School
- Two New Middle Schools
- Burke High School Addition
- Young Achievers Pilot School
- Mission Hill School Windows
- Boston Arts Academy

Public Safety

- Five (5) New Pumper Trucks
- One (1) New Rescue Vehicle
- Two (2) New Platform Trucks
- Fire Station Repairs

Basic Services

- New Play Equipment And Ballfield Renovations
- Artificial turf fields at Joe Moakley Park and English High School

Streets, Transportation & Sanitation

- Scollay Square and Boylston Street
- Cambridge Street
- Huntington Avenue
- Traffic Signal and Safety Zone Improvements

Human Services

- Strand Theater Improvements
- Blackstone Community Center Renovations
- Nazarro Community Center Improvements
- Pool facility assessment

Chief Operating Office/Chief Financial Office

- Connolly Branch Library Upgrade
- McKim Phase II C Restoration
- Renovations and Access Improvements at Seven (7) Branch Libraries
- Replace Roofs at Five (5) Branch Libraries
- Johnson Building Fire Alarm Upgrade

Economic Development

- Citylinks Program
- Aquarium/Central Wharf Water Transportation
- Pier 4, Charlestown Navy Yard

Public Health Commission

- New Fire Alarm System
- Critical repairs for Long Island Facilities
- Infrastructure Improvements at Long Island

Environmental Services

- Open Space Acquisition Fund
- Condor Street and Belle Island Remediation



Capital Planning

State and Federal Funds

State and federal funds, as sources of capital financing, are currently estimated at \$265.8 million from state and \$115.1 million from federal programs. Specific financing programs provide key resources for Boston's Capital Plan. Examples of these programs include:

School Building Assistance Program: This State Department of Education (DOE) program is an important revenue source for school renovation and construction. In July 2000, the State legislature repealed the former school building assistance (SBA) program and enacted Chapter 70B of the General Laws. The reimbursement rates under Chapter 70B range from 50% to 90%, the same as the former law although the method of determining the appropriate rate is different. Under most conditions the City's school construction projects will continue to receive ninety percent reimbursement for the eligible project costs. The reimbursement period generally corresponds to the term of outstanding debt for each school project. Reimbursement payments are made to the City's General Fund and are included as part of the annual State Aid package. In FY02 the State reduced its funding of this program from approximately \$50 million to \$20 million annually. Due to this change in funding the city now expects annual reimbursements for the three new schools to begin no earlier than FY07. Reimbursement payments due between FY04-FY08 are forecast at \$92.5 million.

In March 2003, the Governor instructed the DOE to give only the most urgent FY03 project applications preliminary approval for inclusion on the priority waiting list. In addition, the DOE was directed to place a moratorium on FY04 project applications while the department and legislature prepared a comprehensive approach to restructuring the SBA program. In April, the DOE notified the City that the Burke High School project was among twenty-eight projects state-wide given preliminary approval subject to two conditions: first, final municipal votes must be taken by June 30th and second, completed applications must be submitted to DOE by August 29th. As a consequence, the City passed a loan authorization in late June and filed a completed DOE project application in August. Funding for the Burke project depends on gaining SBA approval and timing of the construction project will be reviewed with respect to the availability of State reimbursement.

Chapter 90 Funds: Administered by the Massachusetts Highway Department, Chapter 90 funds are allocated by formula through State bond authorizations and through

the State budget to all cities and towns in the Commonwealth. Based on current allocations, \$7.28 million in Chapter 90 funds have been provided annually.

Transportation Improvement Program (TIP): The TIP is a statewide road and bridge construction advertisement program developed under the management of the Commonwealth of Massachusetts Executive Office of Transportation and Construction (EOTC). It includes both locally owned roads and bridges as well as state owned roads and bridges. The TIP's funding sources include state issued general obligation bonds and federal dollars, which are available through the \$218 billion Transportation Equity Act for the 21st Century (TEA-21) which is authorized by Congress through Federal fiscal year 2003. The continuation of TEA-21 program, the so-called TEA-3 legislation, is still awaiting Congressional reauthorization. State departments including the Massachusetts Highway Department (MHD), the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts Turnpike Authority (MTA) use the TIP to manage the bidding and awarding of state construction projects.

Massachusetts Water Pollution Abatement Trust

(MWPAT): A statewide revolving fund that commenced operations in 1990 to address necessary environmental actions outlined in the Federal Clean Water Act. \$13.4 million was included in an October 1999 MWPAT bond issue to cap the former Gardner Street landfill as a non-point source of water pollution and to create Millennium Park. Boston will repay the MWPAT for these essentially zero interest bond funds over twenty years.

Trust Funds

The City's Trust Office manages trust funds and bequests from private citizens that are dedicated to Boston's public spaces. While these trust funds represent a small percentage, less than 1% of the overall revenue to the capital plan, they play an important role. Grants from the Edward Ingersoll Browne Trust Fund have been used for the restoration of neighborhood parks, schoolyards and public spaces. The George Robert White Fund is used to support facilities owned by the Fund.

Expenditures

Capital expenditures totaled \$143.1 million in FY02 excluding the Convention Center. Construction began on two new middle schools and one new K-8 school. Completion of these facilities is scheduled for

September 2003. In addition, the School Department continued ongoing efforts to update HVAC systems, replace roofs, repoint masonry, and install new windows. The Fire Department continued work on upgrading fire stations and its radio system. Critical repairs began at Long Island and on the Long Island Bridge. The Public Works Department completed the Pave the Way program while the Parks Department oversaw renovations and upgrades at many parks, playgrounds, playing courts and ball fields throughout the City.

Capital expenditures totaled \$160.8 million in FY03. The total includes \$93.8 million for general obligation bond spending, \$48.5 million for new school construction and \$18.5 million from grants. G.O. spending was bolstered by the acquisition of a commercial office building that was previously leased by the city. The acquisition was proposed after the adoption of the FY03 budget. Excluding the purchase of 1010 Massachusetts Avenue, total capital spending in FY03 was \$129.2 million well within the original FY03 Adopted Budget projection. Construction neared completion on the three new schools, which are scheduled to open for students in September 2003. Technology upgrades continued with sixteen schools scheduled to begin data wiring and electrical upgrades. The Parks and Recreation Department completed several major projects this spring including a significant refurbishment of Christopher Columbus Park and the installation of artificial turf fields at Joe Moakley Park and English High. The Fire Department ordered five new pumper trucks with foam capabilities through a grant from the Massachusetts Highway Department. The Public Works Department continued engineering and design work on several major roadway reconstruction projects while at the same time resurfacing roads and repairing sidewalks throughout the City.

The City continues to adjust its capital plan as the current fiscal climate continues to change. The FY04 G.O. spending plan proposes a \$10 million reduction in planned expenditures in fiscal year 2004 (a 13% reduction). Figure 1 indicates total capital spending from all sources since FY01 and projected through FY08. The decrease between FY03 and FY04 is attributable to the completion of three new schools and the planned \$10 million reduction in G.O. spending.

Total capital expenditures in FY04 are forecast at \$103 million. The total includes \$65 million for general obligation bond spending, \$16 million for new school

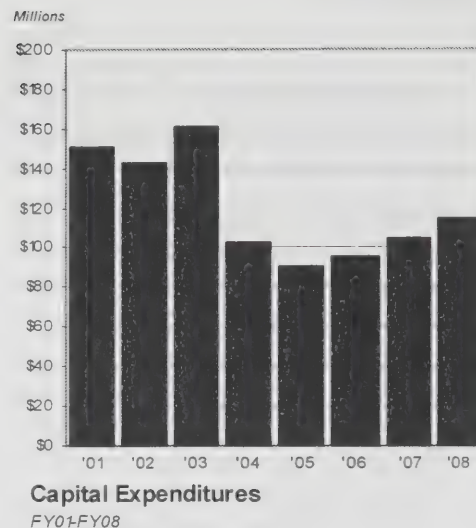


Figure 1

construction and \$22 million from grants. In addition to the new schools opening in September, the School Department will continue to replace boilers, heating systems, and roofs in its existing buildings. The School Department is also actively moving forward to upgrade and replace fire alarm systems in seven schools. Over a dozen branch libraries will begin either roof replacements or significant interior and exterior renovations this year. The central library Johnson Building will have its fire alarm system upgraded.

Capital expenditures from all sources are estimated at \$90 million in FY05 and then increase gradually to \$115 million in FY08.

The expenditure trend shown in Figure 1 for the period FY04-FY08 includes expenditures for four of the five schools to which the Administration committed. Burke High School is the fourth school identified. In April, the DOE notified the City that the Burke High School project was among twenty-eight projects state-wide given preliminary approval subject to two conditions: first, final municipal votes must be taken by June 30th and second, completed applications must be submitted to DOE by August 29th. As a consequence, the City passed a loan authorization in late June and is on schedule to file a completed DOE project application in August. Funding for the Burke project depends on gaining SBA approval and timing of the construction project will be reviewed with respect to the availability of State reimbursement.

Expenditures are not detailed in the FY04-08 capital plan for the construction of the proposed fifth school. When a feasible site is identified, a reliable cost estimate is developed and the state indicates that the facility is eligible for reimbursement, the capital plan will reflect its projected costs.

The City continues to aggressively pursue grant funds, maximize the use of Chapter 90 funds for road and sidewalk projects, and actively manage its projects to ensure that spending does not exceed projections and that priority projects move forward. Together, these strategies will enable the City to maintain a reasonable level of capital spending and borrowing and prudently manage its outstanding debt.

Operating Budget Impacts

Capital project decisions frequently result in either operating cost increases or savings. Increased costs are often justified through improved or expanded service delivery or unavoidable legal mandates or regulatory requirements. Cost savings are often realized through reduced maintenance, energy savings or other efficiencies. The significance of identifying operating budget impacts continues with great urgency this year due to significant losses of operating budget revenue expected in FY04.

The City's strategic acquisition of the 1010 Massachusetts Avenue office building utilizing capital bond funds will relieve the City of \$4.2 million in commercial lease costs in FY04 saving the City over \$2.0 million. This building acquisition will achieve significant operating budget savings even with the added costs of property management and new debt service. Boston's Finance Commission has estimated Boston's twenty-year savings related to the 1010 Massachusetts Avenue acquisition to be approximately \$55 million assuming that lease costs would have escalated in future lease arrangements.

The capital plan continues to support investments that will decrease operating expenses by reducing costs associated with emergency repairs, maintenance of old systems, and energy inefficiency. A substantial portion of the City's capital budget is focused on basic facility repairs such as roof replacements, new window installations, heating and cooling system updates, refurbishing parks, playgrounds, play lots, playing courts and ball fields.

The Boston Public Library has implemented a citywide book security system at all the branch libraries. This project will help decrease the loss rate of library books thereby reducing the annual cost of buying replacement

books. A new HVAC system at the Copley Square Library will significantly improve heating and cooling without an increase to their utility budget.

The Public Works Department will save approximately \$250,000 in FY04 due to a new energy efficient heating and cooling system at its Central Maintenance Facility. This major capital investment will create operating budget savings for a departmental fixed cost somewhat mitigating the impact of FY04 budget reductions.

The City of Boston hopes to build on relationships forged in FY03 with Boston's rate-based utility companies who along with the Massachusetts Technology Collaborative continue to discuss an allocation of rate-based energy efficiency and renewable energy funds to conduct a citywide energy master plan with the long-term goal to reduce energy consumption and costs.

Debt Management Policies and Debt Implications of the Plan

Effective debt management will ensure that the City can meet its capital infrastructure and facility needs. Debt management requires a series of decisions about the amount, timing, purposes and structure of debt issuance. The long-term debt related to capital investment has two main purposes:

- (1) it finances acquisition, construction, repair and renovation of City-owned buildings and equipment that are necessary to provide public services; and
- (2) it finances infrastructure improvements needed for the City's continued growth and maintains safe roadway conditions.

The Treasury Department manages all City borrowings. It has focused in particular on the timing of borrowings, paying special attention to favorable market conditions. The City adopted a set of debt management policies that were implemented by the Treasury Department. These policies address issues such as debt affordability and limitations on the level of variable rate debt the City will use. The goal is to rapidly repay debt, maintain a conservative level of outstanding debt and ensure the City's continued positive financial standing with the bond market.

Key components of the debt management policies ensure that:

- combined net direct debt does not exceed 3% of taxable assessed value;
- at least 40% of the overall debt is repaid within five years and 70% within ten years;

- annual gross debt service costs does not exceed 7% of general fund expenditures;
- the variable rate debt does not exceed 20% of the City's total currently outstanding bonded debt.

Refer to the chapter on Financial Management for further discussion of the City's financial policies and management controls.

The City's debt service forecast assumes general obligation spending as follows: \$65 million in FY04, \$75 million in FY05, \$80 million in FY06, \$90 million in FY07 and \$100 million in FY08. On February 1, 2003, the City issued \$133.5 million in general obligation bonds,

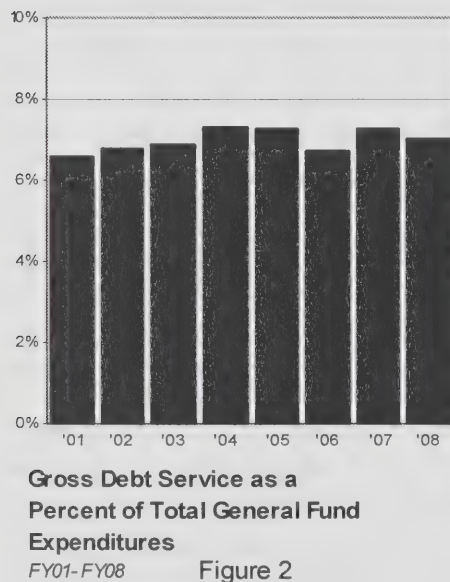


Figure 2

\$28.515 million in general obligation refunding bonds and \$34 million in bond anticipation notes (BANs) to finance the construction of three new schools. The City plans to retire such notes during FY06 with the proceeds of school bonds totaling \$96 million. The timing of the issuance and retirement of the notes will be structured to maximize the benefits of the States' School Building Assistance program. The debt tables at the end of this chapter detail the City's outstanding debt service obligations and demonstrate the City's rapid retirement of its debt.

The City's debt service requirement will exceed 7% of total operating budget expenses in FY04-05. This is largely due to the loss of local aid supporting the operating budget. The City has responded by lowering its anticipated borrowings significantly over the next

five years. The FY04 Budget reduces proposed borrowings by 17.3% in FY04-07 compared to the borrowing plan for the same time period in the FY03 Adopted Budget. Debt service is expected to exceed 7% in FY07-08 due to increased borrowing for schools (Figure 2).

The ratio of debt service to the City's primary revenue source, the property tax levy, declined significantly in the early 1990s. This ratio is projected to decrease modestly over the next four years and then increase in FY07 due to debt issuance for new schools (Figure 3.)

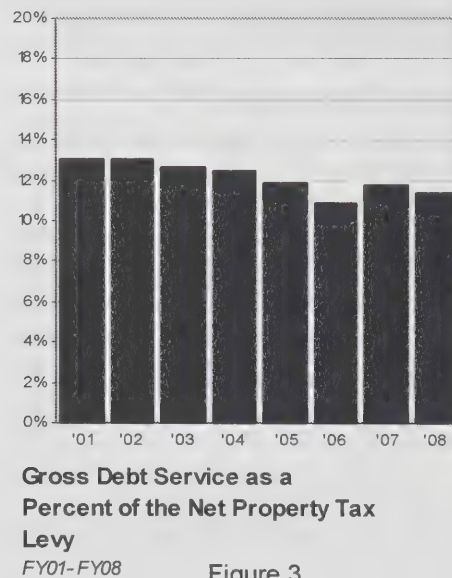


Figure 3

The City's current overall debt burden (net direct debt to assessed property value of \$57.53 billion) is 1.21% as of February 1, 2003. The City's net direct debt per capita currently stands at \$1,113.14 as of February 1, 2003.

Boston has been conservative about assuming long-term debt and aggressive about retiring debt expeditiously.

As of February 1, 2003, the City's debt retirement schedule shows that 35% of its principal will be retired five years out, before the end of fiscal year 2007. (Figure 4). This overall approach to debt issuance has significantly shaped the City's capital investment strategy. Upgrades to the City's bond rating have also recognized the successful capital investment strategy. In February 2003, Moody's Investors Service, Standard and Poor's and Fitch IBCA, Inc. awarded the City with bond ratings of Aa2, AA- and AA-, respectively.

Boston has had eleven general obligation bond sales over the past decade, the most recent of which was for

\$133.5 million in February 2003. The City also has had seven general obligation refunding issues, the most recent was on February 1, 2003, which achieved significant interest rate savings.

Major Capital Projects

Table 1 lists the major projects being undertaken by the Capital Plan. Descriptions on all 506 projects can be found in Volumes II and III of the Budget. The project descriptions include authorizations and funding sources, projected expenditures and scope information.

Boston Convention and Exhibition Center

The Convention Center Act authorizes the development of the Boston Convention and Exhibition Center (BCEC) Project on a 60-acre site in South Boston through the joint efforts of the City, the Commonwealth, the Boston Redevelopment Authority (BRA) and the Massachusetts Convention Center Authority (MCCA). The facility will include over 500,000 square feet of contiguous exhibition space, as well as ballrooms, meeting rooms, banquet and lecture halls. The BRA is authorized and directed by the Convention Center Act to acquire the site for the BCEC Project and to carry out all required site preparation, including relocation of tenants, demolition, environmental remediation, and conveyance of the site to the MCCA for nominal consideration. The MCCA is responsible for the design and construction of the BCEC, and its operation upon completion.

Under the Convention Center Act, all costs of site acquisition and preparation incurred by the BRA for the BCEC Project have been borne by the City up to an initial ceiling of \$157.8 million. All such costs in excess of \$157.8 million and up to \$205 million will be borne by the Commonwealth. When the costs of site acquisition and preparation exceed \$205 million, the Convention Center Act provides that the City and the Commonwealth will share the excess equally up to a maximum of \$50 million (i.e., an additional \$25 million each). All costs of design and construction of the BCEC Project will be funded by the Commonwealth through the issuance of up to \$537.2 million of special obligation bonds of the state authorized by the Convention Center Act.

Over an approximately four year period, the BRA has expended \$203.2 million on site acquisition and preparation, with the bulk of the expenditures occurring during fiscal years 1999 and 2000, and with site acquisition the largest cost. As required by the Convention Center Act, the state has reimbursed the BRA for \$45.4 million of this cost. Another \$1.8 million

in state funding is available prior to the City sharing in any additional cost. The remaining cost for site acquisition and preparation is primarily dependent on the outcome of eminent domain court cases for those parcels for which a final settlement has not been reached (approximately one-quarter of the site acreage). The City estimates that the potential liability of the Commonwealth and the City for site acquisition and site preparation costs will not exceed the total amount authorized for site acquisition and site preparation in the Convention Center Act.

In accordance with the requirements of the Convention Center Act, on March 11, 1998, the City Council and the Mayor approved the Loan Order authorizing the issuance of up to \$157.8 million in Convention Center Bonds, and notes in anticipation thereof, to fund costs of site acquisition and preparation. The City initially funded its BCEC Project costs through issuance in May 1999 of \$130 million in bond anticipation notes. In February 2000, the City issued another \$27.8 million in bond anticipation notes for BCEC Project costs. The City retired the bond anticipation notes with cash accumulated in the hotel excise fund and with bonds issued in April 2002.

Convention Center Bonds issued by the City to retire the bond anticipation notes were issued as special obligation bonds secured by a pledge of all or a portion of the City's receipts from (i) the City's receipts from the 4% local option excise tax on the transfer of rooms in any hotel, motel or other lodging establishment in the City, (ii) the City's \$1 share of the Commonwealth's receipts from a \$10 surcharge imposed on each vehicular rental transaction in the City, and (iii) all proceeds from the issuance and sale of the first 260 taxi medallion licenses issued by the Commissioner of Police after enactment of the Convention Center Act. The last two supporting revenues were established as new City revenue sources in the Convention Center Act.

The BRA provided direction, expertise and services with respect to the drafting and approval process for the environmental impact report for the project and a marketability study required by the Convention Center Act. Both the environmental impact report and the marketability study were completed and accepted in 1998. Site acquisition was completed early in 2000. The BRA has completed relocation of tenants on the project site and has reached final settlement with owners on approximately three-quarters of the acreage of the site. For the unsettled parcels, owners have received pro tanto payments that represent the BRA's estimate of fair market value and retain their right to litigate their

claims. The BRA has completed site preparation for the project that included demolition of buildings and environmental remediation.

Groundbreaking for construction of the BCEC by the MCAA occurred in spring 2000. All costs of design and construction of the BCEC Project is being funded by the Commonwealth out of bond proceeds supported by the state Convention Center Fund established pursuant to the Convention Center Act. The MCCA's construction budget for the BCEC Project is \$620.5 million. A guaranteed maximum price has been negotiated between the MCCA and the construction manager that includes a deadline for the construction manager that is structured both by financial incentives and penalties, and clearly defines the circumstances under which the financial burden of cost overruns shall be shifted from the MCCA to the construction manager. The BCEC Project is on schedule to be substantially completed in the spring of 2004.

Fenway Park Project

The Massachusetts legislature enacted Chapter 208 of the Acts of 2000 (the "Fenway Park Act") to support the development of a replacement facility for Fenway Park, the home field of the Boston Red Sox. Subsequent to its passage, the Red Sox were sold. The new owners of the Red Sox have not pursued the process of obtaining approvals required by Chapter 208. Details of the City's potential financial commitments in Chapter 208 are described in prior years' Capital Planning sections.

The Fenway Park Act is site-specific. If the new owners do not opt for the Chapter 208 plan for replacing Fenway Park, new legislation would be required if an alternative plan put forth by the new owners requires any substantial form of public participation.

Table 1
Major Capital Projects FY2004 -- 2008 Plan

Project	Description	Plan Budget
Mildred Avenue Middle School	Design, construct and furnish a new middle school. The new facility will also include a new community center.	51,281,766
Long Island Bridge Rehabilitation	Rehabilitate bridge. State and/or Federal construction funding anticipated.	39,804,154
Columbia Road Middle School	Design, construct and furnish a new middle school.	39,201,719
Orchard Gardens School	Design, construct and furnish a new K-8 school.	30,547,962
McKim Library Phase II C	Extraordinary repairs and rehabilitation of the McKim Building. Phase II C interior and exterior restoration work includes the Abbey Room and the Sargent murals.	20,400,000
Huntington Avenue	Design reconstruction of roadway. Construction funded with State funds.	15,886,347
Fire Alarm Replacement at 7 Schools	Upgrade fire alarms, emergency lights, PA system and system clocks at: Condon and Tynan, South Boston; Hennigan, Jamaica Plain; Mattahunt, Mattapan; Blackstone, South End ; Ohrenberger, West Roxbury; and Charlestown High School Athletic Building.	7,329,200
Charlestown High School	Replace roof and windows. Repair masonry.	6,870,000
Christopher Columbus Park (Waterfront)	Major park renovation to include site preparation, utilities and earthwork, pavements, curbs and wall, site improvements to lawns and plantings and a new maintenance building.	4,650,000
Fire Equipment FY04-08	Purchase new fire equipment.	4,614,510
Young Achievers Pilot School II	Replace windows, repoint exterior masonry, upgrade electrical distribution, ADA compliance improvements, and general interior improvements.	3,228,600
Long Island Fire Alarm and Sprinklers	Upgrade fire alarm and sprinkler systems on Long Island.	3,000,000
Johnson Building	Upgrade the existing fire alarm system in the Johnson Building.	2,775,700
Boston Arts Academy	Replace windows and repair masonry.	2,482,000
Joe Moakley Park Synthetic Turf	Design and install new synthetic turf playing field and track at the stadium.	2,239,000
English High Field	Design and install new synthetic turf playing field and track at the stadium.	2,200,000
Scolley Square	Reconstruct Scolley Square in conjunction with MBTA project at Government Center station.	2,000,000
Fire Equipment -- 5 pumper engines	Purchase five new pumper trucks with foam capabilities from funds provided by the Massachusetts Highway Department.	1,980,000
Madison Park High School	Replace fire alarms in the Humphrey Occupational Resource Center.	1,943,000
Connolly Branch Library	Improve access for persons with disabilities, replace roof and complete various interior improvements.	1,223,610

Capital Project Financing

Fiscal Years 2004 - 2008

114

	Existing Authorization	FY04 Authorization	FY05-08 Authorization	State	Federal	Other	Trust	Total
Boston Center for Youth and Families	15,920,675	312,000	16,274,750	0	0	0	0	\$32,507,425
Boston Redevelopment Authority	10,674,300	0	850,000	5,287,000	0	0	0	\$16,811,300
Environment Department	2,090,000	0	500,000	0	0	25,000	0	\$2,615,000
Fire Department	23,915,959	5,054,000	13,197,150	2,470,000	0	0	0	\$44,637,109
Graphic Arts Department	1,850,600	0	0	0	0	0	0	\$1,850,600
Library Department	28,275,788	2,460,700	13,240,000	15,425,000	291,358	4,708,642	0	\$64,401,488
Management Information Services	19,583,800	275,000	1,050,000	750,000	0	0	0	\$21,658,800
Neighborhood Development	16,270,749	0	24,146,525	36,644,154	0	0	150,000	\$77,211,428
Office of Budget Management	100,000	0	0	0	0	0	0	\$100,000
Parks and Recreation Department	45,138,458	702,500	9,724,600	34,744,751	49,800,000	11,736,556	0	\$151,846,865
Police Department	18,412,250	0	8,917,250	0	0	0	0	\$27,329,500
Property and Construction Management Department	55,983,013	4,150,000	983,000	150,000	0	300,000	0	\$61,566,013
Public Health Commission	15,315,500	3,615,000	0	0	0	0	0	\$18,930,500
Public Works Department	83,773,680	4,016,000	39,230,583	161,550,627	62,592,939	20,710,000	75,000	\$371,948,829
School Department	196,093,085	51,257,500	34,131,000	1,653,793	0	3,616,000	0	\$286,751,378
Transportation Department	9,450,757	0	1,057,500	7,130,997	2,400,000	0	0	\$20,039,254
Total	542,848,614	71,842,700	163,302,358	265,806,322	115,084,297	41,096,198	225,000	1,200,205,489

Capital Planning

CITY of BOSTON

DEBT SERVICE PAYMENTS on GENERAL OBLIGATION BONDS

@ February 1, 2003

- Stated in Five Year Intervals -
(\$ in thousands)

@ 2/ 1/03

DATE of ISSUE	AMOUNT ISSUED	F'03 through F'07		F'08 through F'12		F'13 through F'17		F'18 through F'22		F'23 through F'27		F'03 through F'27	
		Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
February 1, 2003 R	28,515	6,220	4,714	15,045	3,998	7,250	549					28,515	9,262
February 1, 2003	25,000	5,100	4,093	6,500	4,125	6,200	2,604	6,000	1,182	1,200	60	25,000	12,064
February 1, 2003	33,500	2,585	6,087	5,255	6,978	8,750	5,423	13,490	2,949	3,420	171	33,500	21,608
February 1, 2003	75,000	20,220	11,618	21,435	10,892	17,895	6,207	13,200	2,461	2,450	123	75,000	31,300
November 15, 2002 R	43,070	31,615	5,726	11,455	888	0	0	0	0	0	0	43,070	6,614
August 15, 2002 R	48,640	1,095	8,242	11,430	9,946	23,830	5,302	11,705	1,044	0	0	48,060	24,534
February 1, 2002	100,000	24,360	14,908	28,225	13,332	22,500	7,924	18,825	2,824	0	0	93,910	38,987
April 1, 2001 R	52,025	9,075	8,090	27,085	7,085	15,365	1,338	0	0	0	0	51,525	16,514
February 1, 2001	120,000	31,970	16,363	32,215	13,394	22,715	7,286	16,380	2,048	0	0	103,280	39,090
February 1, 2000	120,000	31,730	8,619	22,265	2,952	0	0	0	0	0	0	53,995	11,571
MWPAT - October 15, 1999	13,389	2,308	2,275	3,223	2,161	3,725	1,237	2,510	213	0	0	11,766	5,887
October 15, 1998	120,000	27,765	15,931	28,250	10,337	23,855	4,615	9,290	395	0	0	89,160	31,279
April 15, 1998	15,000	4,445	2,090	3,435	1,377	2,765	563	530	28	0	0	11,175	4,058
April 15, 1998 R	62,855	16,425	9,204	17,410	6,546	11,800	1,094	0	0	0	0	45,635	16,844
January 15, 1998	90,000	18,490	8,115	17,325	5,855	13,595	2,371	2,610	117	0	0	52,020	16,459
November 15, 1996	90,000	21,600	6,908	8,700	3,153	10,000	1,500	0	0	0	0	40,300	11,560
October 15, 1995	75,000	13,600	2,531	3,200	84	0	0	0	0	0	0	16,800	2,615
September 1, 1994	70,000	14,680	1,346	0	0	0	0	0	0	0	0	14,680	1,346
February 1, 1994 R	85,900	24,880	7,358	24,755	2,686	0	0	0	0	0	0	49,635	10,044
September 1, 1993	50,000	0	791	0	0	0	0	0	0	0	0	0	791
		308,163	145,011	287,208	105,789	190,045	48,014	94,540	13,260	7,070	354	887,026	312,427
			453,173		392,997		238,059		107,800		7,424		1,199,453

% of Total Principal and

Interest Retired in 5 Years: 35% 46%

% of Total Principal and

Interest Retired in 10 Years: 67% 80%

% of Total Principal and

Interest Retired in 15 Years: 89% 96%

% of Total Principal and

Interest Retired in 20 Years: 99% 100%

% of Total Principal and

Interest Retired in 25 Years: 100% 100%

Outstanding Debt by Purpose as of February 1, 2003

	Outstanding @ February 1, 2003	Percent of Total Outstanding Debt
General Purpose:		
Acquisition of Land, Parks and Recreation/		
Outdoor Facilities/Cemeteries/LandFill Areas	76,368,000.16	8.61
Departmental Equipment	24,063,628.59	2.71
Departmental Equipment/Fire Boat Acquisition	93,433.48	0.01
Computer Hardware/Software	29,374,985.98	3.31
Remodeling & Extraordinary Repairs	250,478,638.98	28.24
Rem., Recon., Rehab., Firefighting Apparatus	191,470.97	0.02
Engineering and Architectural Services	1,159,540.56	0.13
	381,729,698.72	43.03
Urban Development:		
Economic Development and Industrial Corporation	5,554,382.71	0.63
Urban Redevelopment and Renewal	28,059,240.21	3.16
	33,613,622.92	3.79
Schools:		
Capital Improvements, Act of 1966	105,995.50	0.01
Capital Improvements, Act of 1973	612,831.65	0.07
Capital Improvements, Act of 1991	6,260,575.31	0.71
Capital Improvements, Act of 1996	31,776,619.13	3.58
Construction of Buildings	25,000,000.00	2.82
School Project Loan, Act of 1948	96,896,093.37	10.92
	160,652,114.96	18.11
Public Buildings:		
Capital Improvements, Act of 1966	27,305.15	0.00
Capital Improvements, Act of 1973	31,985,567.13	3.61
Capital Improvements, Act of 1991	41,576,523.46	4.69
Capital Improvements, Act of 1996	42,307,284.92	4.77
Construction of Buildings	107,449,228.67	12.11
	223,345,909.33	25.18
Public Works:		
Construction of Bridges	24,179,754.89	2.73
Construction of Public Ways	43,248,169.18	4.87
Construction of Sidewalks	4,483,789.49	0.51
Traffic Signals, Public/Street Lighting, Fire Alarms	15,773,271.05	1.78
	87,684,984.61	9.89
GRAND TOTAL =	887,026,330.54	100.00%

<p align="center">RATE of PRINCIPAL RETIREMENT on GENERAL OBLIGATION BONDS:</p>
--

**Fiscal Years Ending June 30, 2003 - 2023
(as of February 1, 2003)**

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>	<u>Percentage of Total Principal Amount Retired:</u>
2003 - 2007	308,162,916.00	34.74 %
2008 - 2012	287,208,415.00	32.38 %
2013 - 2017	190,045,000.00	21.42 %
2018 - 2022	94,540,000.00	10.66 %
2013 - 2027	7,070,000.00	0.80 %
	<u>887,026,331.00</u>	<u>100.00 %</u>

Figure 4

CAPITAL FUND DEBT SERVICE REQUIREMENTS - FISCAL YEARS 2002 to 2008

	Actual FY02	Projected FY03	Projected FY04	Projected FY05	Projected FY06	Projected FY07	Projected FY08
Gross Debt Service Requirements - Bonded Debt							
Total Principal:	82,012,626	86,611,045	86,490,297	87,180,488	80,731,592	88,985,539	90,647,086
Total Interest:	38,732,577	41,022,572	42,155,338	41,681,373	42,334,273	49,304,152	47,641,258
(1) Total	\$120,745,203	\$127,633,617	\$128,645,635	\$128,861,861	\$123,065,865	\$138,289,691	\$138,288,344
Less Revenue Deemed Available from Related Sources:							
Boston Medical Center	2,760,179	2,669,165	2,240,844	1,766,791	918,855	773,544	631,895
Boston Public Health Commission	2,053,206	1,929,177	1,769,448	1,156,990	731,770	709,398	553,771
Water and Sewer Payments	0	0	0	0	0	0	0
Gardner Street Landfill Subsidy	611,139	596,577	581,779	566,722	551,381	535,707	519,627
(2) Irrigation Project	0	106,997	269,504	327,310	320,314	313,572	306,449
(3) 1010 Massachusetts Avenue Project	0	0	1,520,102	1,486,053	1,532,226	1,574,629	1,624,472
Accrued Interest	385,260	618,969	593,554	100,000	100,000	100,000	100,000
Premium	560,711	1,627,751	1,488,497	100,000	100,000	100,000	100,000
Plus: Interest on Temporary Loan Notes and Other Items:							
Revenue Anticipation	0	1,967,220	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Cost of Issuance	188,114	500,000	500,000	500,000	500,000	500,000	500,000
(4) School B.A.N.'s	1,000,000	3,170,000	2,892,500	2,892,500	2,892,500	0	0
Total Debt Service/Budget Summary:	\$115,562,821	\$125,722,203	\$126,574,408	\$129,750,495	\$125,203,819	\$137,682,840	\$137,952,130
Additional Adjustments:							
Less:							
School Construction Assistance	17,128,745	17,232,498	16,882,423	16,787,166	15,972,197	20,094,120	22,734,603
(4) Room Occupancy Excise Fund	6,659,500	7,807,460	7,917,650	8,272,150	8,268,150	8,270,113	8,268,938
Plus:							
(4) Convention Center B.A.N.'s	6,659,500	0	0	0	0	0	0
(4) Convention Center Special Obligation Bonds	0	7,807,460	7,917,650	8,272,150	8,268,150	8,270,113	8,268,938
Total Net Debt Service Requirements:	\$98,434,076	\$108,489,705	\$109,691,985	\$112,963,329	\$109,231,622	\$117,588,720	\$115,217,527

NOTES:

- (1) FY03 - On February 1, 2003, the City issued \$75 million in General Obligation Bonds with a 20 year maturity and an average interest rate of 4.31%.
 - (2) FY03 - On February 1, 2003, the City issued \$33.5 million in General Obligation Bonds for the 1010 Massachusetts Avenue project with a 20 year maturity and an average interest rate of 4.31%.
 - (3) FY03 - On February 1, 2003, the City issued \$25 million in General Obligation Bonds for School purposes with a 20 year maturity and an average interest rate of 4.31% in order to permanently finance the City's Bond Anticipation Notes of February 1, 2001.
 - (4) FY03 - On February 1, 2003, the City issued \$28.515 million in General Obligation Refunding Bonds with a 10 year maturity and an average interest rate of 4.04%.
- Assumes debt issuance as follows...
- FY04 - Assumes General Obligation debt issuance of \$65 million, with a 20 year maturity and average interest rate of 5.0%.
 - FY05 - Assumes General Obligation debt issuance of \$75 million, with a 20 year maturity and average interest rate of 6.0%.
 - FY06 - Assumes General Obligation debt issuance of \$80 million, with a 20 year maturity and average interest rate of 6.0%.
 - FY07 - Assumes General Obligation debt issuance of \$96 million, with a 20 year maturity and average interest rate of 6.0%.
 - FY08 - Assumes General Obligation debt issuance of \$90 million, with a 20 year maturity and average interest rate of 6.0%.
- (2) Debt Service Costs will be offset by the "Fund for Parks and Recreation".
- (3) Debt Service Costs will be offset by charging City departments for the space they occupy.
- (4) FY02 - On February 1, 2002, the City issued \$62 million in Bond Anticipation Notes at an interest rate of 3.5% which will mature on February 1, 2006.
- FY03 - On February 1, 2003, the City issued \$34 million in Bond Anticipation Notes at an interest rate of 2.125% which will mature on February 1, 2006.
- (5) FY02 - On May 1, 1999, the City issued \$130 million in Bond Anticipation Notes at an interest rate of 4.0% which were to mature on May 1, 2002.
- FY02 - On February 1, 2000, the City issued \$27.8 million in Bond Anticipation Notes at an interest rate of 5.25% which were to mature on May 1, 2002.
- FY02 - On April 15, 2002, the City retired the Convention Center Notes dated May 1, 1999 and February 1, 2000 with the issuance of \$116.9 million in Special Obligation Bonds for the Convention Center with a 25 year maturity and an average interest rate of 4.83%. Pledged revenues will be dedicated to the repayment of the debt service.



Statutes and Ordinances

Statutes and Ordinances

Governing Boston's Operating and Capital Budgets

This section summarizes key Massachusetts laws and City ordinances affecting Boston's operating budget development and its subsequent expenditure. The section also covers significant laws and ordinances governing general obligation loan authorization. Although the material is not all-inclusive, it covers the more important laws guiding the budget process.

In addition to the statutes and ordinances, other budget-related directives are in various mayoral Executive Orders and in the policies and administrative guidelines issued by the Office of Budget Management.

For understanding Boston's operating budget, the most important pieces of legislation are Chapter 190 of the Acts of 1982, commonly referred to as the Tregor legislation, and Chapter 701 of the Acts of 1986, known as the Tregor Amendments.

Annual Appropriation Process

Section 15 of Chapter 190 of the Acts of 1982, as amended by Section 2 of Chapter 701 of the Acts of 1986, states that "all appropriations, excepting those for school purposes, to be met from taxes, revenue or any source other than loans, shall originate with the mayor. The mayor, not later than the second Wednesday in April of each year, shall submit to the city council the annual budget of the current expenses of the city and county for the forthcoming fiscal year....

"The city council may reduce or reject any item but, except upon the recommendation of the mayor, shall not increase any item in, nor the total of, a budget nor add any item thereto, nor shall it originate a budget.

"Not later than the second Wednesday in June, the city council shall take definite action on the annual budget by adopting, reducing or rejecting it, and in the event of their failure to do so, the items and the appropriation orders in the budget as recommended by the mayor shall be in effect as

if formally adopted by the city council...

"The city council shall take definite action on any supplementary appropriation order and any order for a transfer of appropriations by adopting, reducing or rejecting it within sixty days after it is filed with the city clerk..."

School Department Budget Process

Subsection 6 of Section 32 of Chapter 71 of the Acts of 1993 states that "in addition to amounts appropriated for long-term debt service, school lunches, adult education, student transportation, and tuition revenue, each municipality in the commonwealth shall annually appropriate for the support of public schools in the municipality and in any region school district to which the municipality belongs an amount equal to not less than the sum of the minimum required local contribution, federal impact aid, and all state school aid and grants for education but not including equity aid, for the fiscal year...the commissioner (of the Department of Education) shall estimate and report such amounts to each municipality and region school district as early as possible, but no later than March first for the following fiscal year."

Section 2 of Chapter 224 of the Acts of 1936, as amended by Chapter 613 of the Acts of 1987, further states that "(a) In acting on appropriations for educational costs, the city council shall vote on the total amount of the appropriations requested by the mayor, but neither the mayor nor the city council shall allocate appropriations among accounts or place any restriction on such appropriations. The appropriation of said city shall establish the total appropriation for the support of the public schools, but may not limit the authority of the school committee to determine expenditures within the total appropriation; provided, however, that if the city auditor determines that school department expenditures in any fiscal year are projected to be

in excess of total budgeted expenditures for that fiscal year, as supported by appropriation and other available funding, then the school committee shall not reallocate or transfer funds from any item in the budget for that fiscal year to fund any such projected additional expenditures.

"(b) After the fourth Wednesday of March of any fiscal year, the school committee shall not initiate or authorize any new or additional programs or categories of expenditures requiring additional unbudgeted expenditures unless such programs or categories have been incorporated and fully funded in the budget for the subsequent fiscal year. If such programs or categories have not been incorporated and fully funded in the budget for the subsequent fiscal year, they shall not be initiated or authorized until the school committee shall have amended its budget submission for the subsequent fiscal year to reduce or eliminate other costs, programs or categories in amounts equal to the projected annualized costs of the new or additional programs or categories of expenditures.

"(c) The superintendent of schools shall prepare and submit to the school committee, the city auditor and the city office of budget management, a monthly budget update report which shall detail and itemize year-to-date and projected school department expenditures and budget transfers."

School Department Financial Affairs

Section 1B of Chapter 231 of the Acts of 1906, as amended by Chapter 613 of the Acts of 1987, notes that "the school committee may delegate, in whole or in part, to the superintendent of schools the authority to approve for the school department the acceptance and expenditure of grants or gifts of funds from the federal government, charitable foundations, private corporations, individuals, or from the commonwealth, its counties, municipalities or an agency thereof, the provisions of Section 53A of Chapter 44 of the General Laws notwithstanding.

"(b) The superintendent of schools shall provide to the school committee, the city auditor and the office of budget management of the City of Boston a report, detailing the source, purpose and balance on hand of all funds received or expended pursuant to subsection (a), quarterly."

Section 2 of Chapter 231 of the Acts of 1906, as

amended by Chapter 613 of the Acts of 1987, states that "subject to appropriations therefore, the superintendent of schools shall have the exclusive authority to make on behalf of the school committee contracts, or amendments to contracts, for the purchase or rental of equipment, materials, goods or supplies, leases of property, alterations and repairs of school property, and for professional or other services, with the exception of collective bargaining agreements and contracts for the transportation of students. All school department contracts or amendments to contracts shall otherwise conform to the requirements of the city charter of the city of Boston.

"(b) With respect to all contracts, agreements or amendments thereto made or entered into by the school department, the superintendent shall be responsible for establishing procedures for auditing and monitoring the compliance of the parties with the terms and obligations of such contracts, agreements or amendments thereto."

Charter Schools Legislation

Section 89 of Chapter 71 of the Massachusetts General laws as amended establishes guidelines for charter schools across the state. Charter Schools are established for several reasons, including encouraging development and maintenance of innovative learning programs within public education, allowing educators more flexibility in working with school committees and unions, giving parents and students greater choice in learning programs, presenting educators with opportunities and tools to establish innovative and alternative educational programs, fostering performance-based educational programs, developing models for other schools to follow and providing students with opportunities to specialize within academic areas.

Section 89 allows 120 charter schools. This total includes 72 commonwealth charter schools and 48 Horace Mann charter schools. A commonwealth charter school is a public school that is operated under a charter granted by the Board of Education. Commonwealth charter schools operate independently from local school committees and are managed by a separate board of trustees. Horace Mann charter schools are either public schools or programs that operate under a charter granted by the Board of Education

and approved by the local school committee and the local bargaining agent. In any fiscal year, no public school district's total charter school tuition payment to the commonwealth charter schools shall exceed 9% of its net school spending.

Beginning in FY99, the state absorbed 100 percent of first-year tuition costs for new commonwealth charter students. Each year, thereafter, the state will absorb incrementally less until the student's fourth year when the local school district will assume 100 percent of the tuition cost.

The trustees for the Horace Mann charter schools shall annually submit a budget request to the superintendent and school committees for the following year. In response to its budget request, the Horace Mann charter school shall not receive less funding than it would under the district's budgetary allocation rules.

Reserve Fund

Section 7 of Chapter 701 of the Acts of 1986, requires the creation of an operating budget Reserve Fund to deal with "extraordinary and unforeseen expenditures." This section requires that "prior to the date when the tax rate for a fiscal year is fixed, [the City must] include in the appropriations for such a fiscal year as a segregated reserve fund a sum not less than 2 1/2 percent of the preceding year's appropriations for city and county departments, excepting the school department..."

"The mayor, with the approval of the city council, may make direct drafts or transfers against this fund before the close of the fiscal year, provided that no such drafts or transfers be made before June first in any fiscal year.

"Each transfer recommended by the mayor to the city council shall be accompanied by written documentation detailing the amount of such transfers and an explanation for the transfer..."

The section also notes "the school department shall establish a segregated reserve fund of not less than one percent of the current fiscal year's appropriations to the school department within ten days of final approval of such appropriations. No expenditures may be made from this [school department reserve] fund before May first in any fiscal year...and shall require the approval of the mayor and the city council."

Budget Allotment Process and Reallocations

Section 18 of Chapter 190 of the Acts of 1982, as amended by Sections 8 and 9 of Chapter 701 of the Acts of 1986, requires that "on or before August first of each year, or within ten days of the annual appropriation order for such fiscal year, whichever shall occur later, the city or county officials in charge of departments or agencies, including...the school department, shall submit to the city auditor, with a copy to the city clerk...an allotment schedule of the appropriations of all personnel categories included in said budget, indicating the amounts to be expended by the department or agency for such purposes during each of the fiscal quarters of said fiscal year."

The school department's allotment may not be greater than 20 percent for the first quarter and 30 percent in each of the remaining three quarters. Allotments for city and county agencies may not exceed 30 percent for first or second quarters or be less than 21 percent for the third and fourth quarters.

In addition, "whenever the city auditor determines that any department or agency, including the school department, will exhaust or has exhausted its quarterly allotment and any amounts unexpended in previous quarters, he shall give notice in writing to such effect to the department head, the mayor and the city clerk, who shall transmit the same to city council.

"The mayor, within seven days after receiving such notice, shall determine whether to waive or enforce such allotment. If the allotment...is waived or not enforced...the department or agency head shall reduce the subsequent quarter's allotments appropriately and the director of administrative services, within seven days, shall state in writing to the city council and the city clerk what reductions in each subsequent quarter's allotment will be taken or what reallocations or transfers will be made to support the spending level in each subsequent quarter's allotment. If the allotment for such quarter is enforced and not waived, thereafter the department shall terminate all personnel expenses for the remainder of such quarter..."

"No personal expenses earned or accrued, within any department, shall be charged to or paid from such department's or agency's allotment of a

subsequent quarter without approval by the mayor, except for subsequently determined retroactive compensation adjustments.

"Approval of a payroll for payment of wages, or salaries or other personnel expenses which would result in an expenditure in excess of the allotment shall be a violation by the department or agency head...

"To insure that the overall city and county spending program remains in balance, the mayor may reallocate no more than three million dollars of non-personnel appropriations other than school appropriations during a fiscal year to other departmental purposes provided that in no department from which appropriations have been reallocated in accordance with this section shall any transfers be made...from personal services to non-personal services, except with the approval of a two-thirds vote of city council, if such transfer would require the layoff of departmental personnel, who have been permanently appointed to a position in the department...

"No reallocation may be made under this section after April fifteenth in any fiscal year.

"A list of each reallocation made by the mayor shall be transmitted to the city council and the city clerk by the city auditor by April thirtieth in any fiscal year. In each case, the report shall state the accounts from which the transferred funds were taken and the accounts to which the funds were reallocated, and the reasons therefore."

Transfer of Appropriations

Section 23 of Chapter 190 of the Acts of 1982, as amended by Section 3 of Chapter 701 of the Acts of 1986, states that "after an appropriation of money has been made...no transfer of any part of the money thus appropriated, between such department or office and another department or office, shall be made, except in accordance with and after the written recommendation of the mayor to the city council, approved by a vote of two-thirds of all the members of the city council, provided that the city auditor, with the approval in each instance of the mayor, may make transfers, other than for personal services, from any item to any other item within the appropriations for a department, division of a department or county office.

"After the close of the fiscal year, the city auditor may, with the approval of the mayor in each instance, apply any income, taxes and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose only of closing the accounts of such fiscal year, provided further that the city auditor within seventy days after the close of the fiscal year, shall transmit to city council and the city clerk a report listing what income, taxes, or funds were applied and what transfers were made and the reasons therefore."

Penalty for Overspending Budget

Section 17 of Chapter 190 of the Acts of 1982 (Tregor) states that "no official of the city or county except in the case of extreme emergency involving the health and safety of the people or their property, shall expend intentionally in any fiscal year any sum in excess of the appropriations duly made in accordance with law, nor involve the city in any contract for the future payment of money in excess of such appropriations...

"Any official who violates the provisions of this section shall be personally liable to the city for any amounts expended intentionally in excess of an appropriation to the extent the city does not recover such amounts from the person to whom paid..."

Appropriation Restrictions

Section 10 of Chapter 701 of the Acts of 1986, requires that "the mayor and city council shall appropriate for the hospitalization and insurance account an amount not less than the average of the past three years actual expenditures from those accounts. The city auditor shall certify, in writing to the board of assessors, that adequate funds are provided in the operating budget for existing collective bargaining contracts..."

Restrictions on the Use of Proceeds from the Disposition Of Surplus Property - Section 24 of Chapter 190 of the Acts of 1982, as amended by Section 4 of Chapter 701 of the Acts of 1986, requires that "proceeds from the disposition of any surplus property shall be deposited in a separate fund which shall be known as the Surplus Property Disposition Fund, and shall be used only as follows: (1) the amount equivalent to the debt incurred, and interest paid or payable thereon, as

a result of the acquisition or improvement from time to time of the property shall be used only for purposes for which the city is authorized to incur debt for a period of ten years or more and (2) all proceeds in excess of such amount shall be credited to the capital fund of the city unless the city council by a majority vote determines with the approval of the mayor to credit such proceeds to the general fund of the city."

Duties of Supervisor of Budgets

City of Boston Code Ordinance 5, section 5 states that "the supervisor of budgets shall, under the direction of the mayor and in consultation with the director of administrative services, prepare in segregated form the annual and all supplementary budgets...and shall report to the mayor on all subsequent revisions of the items in any budget...

"The supervisor of budgets shall also prepare...all transfer orders...

"The supervisor of budgets shall further prepare...the form of estimate sheets to be used by each officer, board and department, and each division of a department for which the city appropriates money, and the form of monthly report of such officer, board and department, and each division thereof, showing expenditures to date of all appropriations by them.

"The supervisor of budgets shall, in addition, have the powers and perform the duties conferred or imposed on the budget commissioner by any statute other than Section 56 of Chapter 35 of the General Laws."

Convention Center Legislation

Chapter 152 of the Acts of 1997, the convention center legislation, was enacted on November 19, 1997. This legislation authorizes the development and construction of a convention center in Boston as well as borrowing for other convention center-related projects in Worcester, Springfield, Pittsfield, Fitchburg, Greater New Bedford, and Holyoke and for conducting studies of other areas of the state.

Under this legislation and through the joint efforts of the Boston Redevelopment Authority (BRA) and Massachusetts Convention Center Authority (MCCA), the new Boston Convention and Exhibition Center will be developed and constructed on a 60-acre site in South Boston.

The facility, which is expected to be substantially complete in Spring 2004, will include over 500,000 square feet of contiguous exhibition space in addition to ballrooms, meeting rooms, banquet, and lecture halls.

The enabling law authorizes the Commonwealth to borrow up to \$609.4 million for facility construction and the City to borrow up to \$157.8 million. If necessary, the City is also authorized to borrow up to an additional \$25 million for acquisition and preparation of the land. The state funds its share of expenses through several methods, including convention center financing fees from hotel, meals, beverage and sales taxes; tourist, sightseeing and entertainment vehicle surcharges, and vehicle rental surcharges (\$10 each, of which \$1 is earmarked for Boston).

Boston's expenses are funded through a Room Occupancy Excise Fund encompassing four major revenues. First, the City earmarks for the fund the four-percent excise from new hotels that opened on or after July 1, 1997. Second, the City receives a \$1 surcharge for car and truck rentals as part of the state surcharge. Next, the City of Boston receives a reimbursement from the state for its net interest expense through June 30, 2003. Also, the City sold 260 additional hackney licenses. The taxi medallions sold for an average of approximately \$152,000 each and raised an estimated \$39.5 million.

With the construction of the new convention center, Boston is poised to become a major competitor for international and national convention and exhibition business, thereby stimulating economic development and investment. With new attractions, tourism-related businesses will expand, thereby encouraging secondary spending for transportation services, recreation, and entertainment and at hotels, restaurants, and retail stores. The ultimate economic benefit will be new jobs, new businesses, and new investment opportunities, resulting in an improved quality of life for Boston residents.

The Boston Jobs and Living Wage Ordinance

Chapter 3 of the Ordinances of 1998, amending Chapter 5 of the Ordinances of 1997, was enacted on July 1, 1998. This ordinance established guidelines requiring companies and organizations with city service contracts of \$100,000 or more to

pay all workers a living wage of at least \$9.11 an hour. The Living Wage Ordinance has since been amended by Chapter 8 of the Ordinances of 2001, to require companies and organizations with city service contracts of \$50,000 upon enactment and \$25,000 as of July 1, 2002 to pay no less than \$10.25 an hour. That hourly wage is to be adjusted every July 1 (beginning July 1, 2002) according to the formula contained in the ordinance. The adjusted living wage as of July 1, 2002 is \$10.54.

The intent of this ordinance is to balance a decent wage for the working poor with economic development in the business community. By raising the wage level, it is expected that consumer income will increase, poverty levels will decrease, neighborhood businesses will be invigorated, and the need for taxpayer-funded social programs will decline. The Living Wage level, higher than the federal minimum wage, is designed to meet the needs of a family of four to live at or above the federal poverty level.

This ordinance applies to for-profit and non-profit companies with 25 employees or more.

Exemptions to this ordinance include school to work programs, summer youth programs, seasonal or part-time work, or where compliance would result in extreme hardship.

Changes in Contracting Procedures

Chapter 262 of the Acts of 1998 establishes that any department, officer or board of the City of Boston or Suffolk County must initiate a contract when the amount involving a request for services or purchase is \$10,000 or more. Previously, the amount requiring a contract was \$2,000. Raising the contract level reduced the amount of processed paperwork, streamlined the acquisition process, and reduced the time needed for retaining goods and services.

Civil Service Changes

Chapter 282 of the Acts of 1998 requires that the state Personnel Administrator certify current provisional employees and provisional promotees who have served in civil service positions within the City of Boston for at least six months prior to January 1, 1998, to permanent civil service status in those positions. Under this law, approximately 3,100 employees became permanent civil servants.

Pension Funding Changes

To aid municipalities dealing with property tax reduction due to Proposition 2 1/2, the state began assuming the cost for local pension COLAs as of 1981. During the FY97 budget process, the state clearly stated it would not fund local pension COLAs in subsequent years. The state, however, remains obligated to pay for local pension COLAs awarded between FY81 and FY97.

The impact of assuming the funding for COLAs granted after FY98 could have severely impaired the City's budget had Boston not changed its funding schedule to fully fund pension liabilities on a new, adjusted schedule. Specifically, without any changes, the COLA costs would have increased the City's pension contribution by \$27.9 million in FY99 with an expectation of 4 1/2 percent growth each year. However, the City instituted changes in the funding schedule to offset the increased costs.

There are several considerations that should be addressed before the adoption of an annual COLA increase. A combination of some of the following conditions might trigger denial of a COLA:

1. The SBRS (State-Boston Retirement System) rate of return on assets during the previous calendar year was less than the rate assumed in the state-approved pension funding schedule;
2. For a majority of the City's union members no collective bargaining increases have been awarded during the current fiscal year;
3. The property tax levy in the last state-approved property tax rate has been restricted or reduced due to the net effective property tax rate hitting the property tax rate ceiling of 2.5% of total taxable value;
4. The City's current fiscal year net cherry sheet aid (cherry sheet aid minus cherry sheet state assessments) has been reduced;
5. The City shows a deficit in the most recent completed fiscal year for the budgetary basis fund operating budget.

Boston Public Health Act of 1995

The goal of the Boston Public Health Act of 1995 (Chapter 147) is to establish a new, comprehensive health care system to meet the challenges of a rapidly changing health care environment and ensure continuous delivery of high-quality health care services to residents. The new health care network of public and private partnerships unites outreach, health education, prevention, outpatient and inpatient services, home care, emergency care, specialty care, aftercare, rehabilitation, and long-term care services into an integrated continuum of care. The overall goals are promoting health and well being, meeting medical and public health needs, and educating future physicians and caregivers. The system also addresses cultural and linguistic diversity to meet the health needs of persons of all races, languages, cultures, and economic classes.

Chapter 147 abolished the Department of Health & Hospitals and established the Boston Public Health Commission (BPHC) in its place. With City Council approval, the legislation allowed the City to merge or consolidate the operations and assets of the hospitals with the Boston University Medical Center Hospital per the following guidelines:

- " (1) ensuring the availability of a full range of primary through tertiary medical programs, in addition to a commitment to public health, preventive, emergency and long term rehabilitative care programs;
- (2) serving both urban and suburban communities in a culturally and linguistically competent manner that strives to meet the current and changing health care needs of people of all races, languages, cultures and economic classes;
- (3) providing a high degree of medical, nursing, management and technical competency and accountability;
- (4) enhancing its role as a major academic medical center, including support for bio-medical, public health, medical education and basic science research;
- (5) providing managed care services to the communities served by the new medical center and participating effectively and competitively in managed care plans serving the patient population; and

- (6) treating its patients, staff and the communities served with respect and dignity."

The network links the City's new Public Health Commission with private hospitals, community health centers, the new Boston Medical Center, and community-based organizations and providers. Through this network, the commission offers a myriad of health services, including primary care, specialized services such as AIDS treatment and prevention, communicable disease control, injury prevention, substance abuse services, infant mortality prevention, and ambulance services. In addition, the commission operates the City of Boston's homeless shelter.

The budget should set forth the amount by which, if any, the projected expenditures exceed revenues and the net cost of public health services. If there is a net cost of public health services, the budget is subject to mayoral review and approval. The mayor may approve or reject and return the budget to the BPHC. If the budget is accepted, the mayor shall include the net cost of public services in the City's annual budget and may submit supplementary appropriations as needed. The BPHC must adopt its budget no later than the second Wednesday in June.

Classification of City Debt

Pursuant to the Bond Procedure Act of 1983, all indebtedness of the City, other than certain special obligation bonds, constitutes general obligation indebtedness of the City for which its full faith and credit are pledged and for the payment of which all taxable property in the City is subject to ad valorem taxation without limit as to rate or amount. Pursuant to the 1982 Funding Loan Act and the Bond Procedure Act of 1983, general obligation bonds of the City may also be secured by a pledge of specific City revenues pursuant to covenants or other arrangements established under a trust or other security agreement. In addition, special obligation bonds of the City may be issued and be payable from and secured solely by a pledge of specific revenues derived from a revenue-producing facility of the City. Indebtedness of the City may also be classified by the nature of the City's obligation for the payment of debt service, depending on whether such debt is a direct obligation of the City or is an obligation of another governmental entity

for the payment that the City is indirectly obligated.

Direct Debt

Direct debt of the City consists principally of the City's outstanding general obligation bonds. The City's direct indebtedness does not include the City's Special Obligation Refunding Bonds of \$127.8 million, Boston City Hospital Issue dated August 15, 2002 issued in order to refund the City's Revenue Refunding Bonds, Boston City Hospital (FHA Insured Mortgage), Series B, dated June 1, 1993. The Bonds do not constitute general obligations of the City to which its full faith and credit are pledged. For further discussion of the mechanics of the Special Obligation Refunding Bonds, please refer to the City's most recent Official Statement dated February 1, 2003.

Secured Indebtedness

In addition to authorizing the City to secure its indebtedness with letters of credit, the Funding Loan Act of 1982, and the Bond Procedure Act of 1983, empower the City to secure any of its indebtedness issued under any general or special law by a pledge of all or any part of any revenues that the City received from or on account of the exercise of its powers. Examples include taxes (such as real property taxes), fees payable to or for the account of the City, and receipts, distributions, and reimbursements held or to be received by the City from the Commonwealth that are not restricted by law for specific purposes. Currently, the City does not have any outstanding bonds secured by such a pledge. The City, however, reserves the right in the future to issue bonds, notes or other obligations secured by various revenues of the City or by letters of credit.

Bond Procedure Act of 1983

In 1983, the City Council passed and the Mayor signed a home rule petition to the state legislature that enacted Chapter 643 of the Acts of 1983 of the Commonwealth. This act, formally entitled the City of Boston Bond and Minibond Procedure Act of 1983, is referred to as the Bond Procedure Act of 1983. Effective January 2, 1984, the legislation modified various procedural restrictions related to the City's issuance of indebtedness. Such modifications provide, among other things, more

flexible schedules for repaying debt principal, the issuance of variable rate bonds, term bonds and bonds redeemable at the option of the bondholder, and authorization for the sale of bonds at a discount. The legislation also provides the City with the authority to issue bonds in an amount up to \$5 million in any one fiscal year and notes in an amount outstanding at one time of up to five percent of the prior year's property tax levy. Each bond and note is issued in a denomination less than \$5,000 (known as minibonds and mininotes). In addition, the legislation authorizes the issuance of refunding bonds and grant anticipation notes, as well as restating the investment powers of the City and the extent to which city bonds are legal investments for certain entities.

The Bond Procedure Act of 1983 also reaffirms provisions of state law, indirectly affected by Proposition 2 ½. This law requires that the City's annual tax levy must include the debt and interest charges that are not otherwise provided for as well as all general obligation indebtedness of the City regardless of the date of issue.

In addition to modifications to the procedures related to the City's general obligation indebtedness, the legislation authorizes the City to finance revenue-producing facilities with special obligation bonds payable from and secured solely by a pledge of facility revenues. Under this act, the City may also issue general obligation bonds secured by the pledge of specific city revenues and finance projects that otherwise could be financed by bonds, lease, lease-purchase or sale-leaseback agreements. The Bond Procedure Act of 1983 was amended in August 1991 to provide, among other things, for increased flexibility in establishing debt principal amortization schedules.

Authorization of Direct Debt; Debt Limits

All direct debt of the City requires the authorization of the City Council and approval of the Mayor. If the Mayor should veto a loan order passed by the City Council, the charter of the City provides that the loan order is void and may not be passed over the Mayor's veto. Authorization of bonds under a loan order of the City Council includes, unless otherwise provided in the loan order, the authorization to issue temporary notes in anticipation of such bonds. Under the Bond Procedure Act of 1983, temporary notes in

anticipation of bonds, including any renewals thereof, must mature within two years of their issue dates.

The laws of the Commonwealth provide for a statutory debt limit for the City consisting of a debt limit and a double debt limit. The debt limit is 2 1/2 percent of the valuation of taxable property in the City as last equalized by the state Department of Revenue. The Equalized Valuation ("EQV") of taxable property in the City approved on April 17, 2001 for use until June 30, 2003, or until a new EQV is established by the state legislature, is \$45.86 billion. Based on the current EQV, the City's debt limit is \$1.25 billion and its double debt limit equals \$2.19 billion. The City may authorize debt up to its debt limit without state approval. The City may authorize debt over the debt limit up to the double debt limit with the approval of the state Emergency Finance Board ("EFB"). The EFB increased the City's debt limit by \$100 million in December 2001; this approval will remain in effect until the City requests that it be rescinded. As of February 1, 2003, the City had outstanding debt of \$465.3 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$513.6 million. Based on the City's current debt limit of \$1.25 billion, the City had the capacity to authorize an additional \$267.6 million of debt as of February 1, 2003.

There are many categories of general obligation debt exempt from the general debt limit (although authorization of such debt is subject to various specific debt limits, specific dollar limitations or state approval). Among others, these exempt categories include temporary loans in anticipation of current and in anticipation of reimbursements or other governmental aid, emergency loans, loans exempted by special laws, certain school bonds, and bonds for housing and urban and industrial development. The latter bonds are subject to special debt limits ranging from 0.5% to 10 percent of equalized valuation depending on purpose. On February 1, 2003, the City had \$293.1 million in outstanding debt exempt from the general debt limit and \$177.3 million in authorized but unissued debt exempt from the general debt limit.

Related Authorities and Agencies

In addition to direct and indirect indebtedness of the City, the City and certain agencies and commissions related to the City are authorized by

law to issue obligations that are solely a debt of the agency or commission issuing the obligations or are payable solely from revenues derived from projects financed by such debt. Except, as described below, such obligations are not a debt of the City.

The Boston Public Health Commission is an independent corporate and political subdivision of the Commonwealth created in June 1996 as the successor to the City's Department of Health and Hospitals (DHH). Effective July 1, 1996, all powers and functions of DHH and THH (Trustees of Health & Hospitals) were transferred to the commission. In addition, the commission assumed all assets and liabilities of the City allocable to DHH. At its inception, the Commission also assumed responsibility for paying the City an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes. Such bonds were outstanding on June 30, 2002 in the aggregate principal amount of \$19.0 million. These bonds are the City's general obligations whose outstanding amount is shown on the City's debt statement. The commission has also assumed responsibility for paying the current debt service on the City's Revenue Refunding Bonds, Boston City Hospital (FHA Insured Mortgage) Series, which were outstanding on June 30, 2001 in the aggregate principal amount of \$145.6 million. The Series B Bonds are not general obligations of the City, but are secured by a mortgage on the former Boston City Hospital campus. Payments of principal and interest on the mortgage are insured by the federal government through the Federal Housing Administration. The commission expects to meet its mortgage and Series B Bond obligations through a portion of the rent payable to the commission by Boston Medical Center Corporation for its lease of the former Boston City Hospital campus and investment earnings on reserves for the Series B Bonds. Subject to appropriation by the City, under certain circumstances such as default by Boston University Medical Center under the lease, City revenues may be required to satisfy the debt service requirements on the Series B Bonds.

The Boston Water and Sewer Commission (BWSC) is an independent political and corporate subdivision of the Commonwealth created in July 1977. At its inception, BWSC assumed

responsibility for the operation of the City's water and sewer systems and for paying to the City an amount equal to current debt service on all outstanding bonds the City issued for water and sewer purposes. All debt service for such bonds has been paid. The City is not obligated on bonds issued by the Commission.

The Economic Development and Industrial Corporation of Boston (EDIC) is a political and corporate entity of the Commonwealth consisting of five members who are also appointed as members of the Boston Redevelopment Authority (BRA). EDIC has a variety of powers to assist industrial development projects in the City. EDIC is not authorized to issue debentures in excess of \$5 million secured solely by the credit and properties of EDIC and revenue bonds secured by revenues from the lease or sale of its projects. The City is also authorized to appropriate or borrow monies for EDIC development projects within certain urban renewal debt limitations.

The BRA is a public political and corporate body that combines the City's redevelopment and planning board authority with certain powers of the state Department of Community Affairs. The BRA board consists of four members appointed by the Mayor, subject to confirmation by the City Council, and one member appointed by the State Department of Community Affairs. The BRA provides the planning support for major construction and redevelopment activity in the City. Although the BRA is authorized to issue revenue bonds and notes that are not city debts, the BRA traditionally finances its projects through a combination of federal and state grants, proceeds of general obligation bonds issued by the City, and revenues from the lease or sale of land.

playgrounds, reconstruction and resurfacing of roads, roadway and street lighting, and equipment acquisitions.

The Capital Improvements Act of 1966, as amended, permits the City of Boston to issue debt outside the debt limit for various municipal purposes, including new construction and renovation of existing facilities. The legislation provides a specific limit on the total amount of debt that may be issued under the statute.

Chapter 70B of the Massachusetts General Laws provides for the issuance of general obligation debt for certain school projects approved by the State Board of Education under the School Building Assistance program. Under the program, the state reimburses a percentage project costs to the City's General Fund annually.

Major Debt Statutes and Borrowing Authority

Chapter 44, Section 7 of the Massachusetts General Laws permits cities and towns in the Commonwealth to incur debt within the statutory limits of indebtedness described previously for various municipal purposes and identifies the maximum maturity period for each purpose. The purposes include, but are not limited to, the original construction and equipping of municipal facilities, repairs and renovations to existing municipal structures, improvements to parks and



Boston's People and Economy

Boston's People and Economy

INTRODUCTION

The City of Boston was first incorporated as a town in 1630, and as a city in 1822. It is one of America's oldest cities, with a rich economic and social history. What began as a homesteading community, and eventually evolved into a center for social and political change, has since become the economic and cultural hub of New England.

As the region's hub, Boston is home to nearly 590,000 residents, many institutions of higher education, some of the world's finest inpatient hospitals, and numerous cultural and professional sports organizations. Boston-based jobs, primarily within the finance, health care, educational, and service areas, numbered over 680,000 in 2001. Millions of people visited Boston in 2002 to take in its historic neighborhoods, attend cultural or sporting events, or conduct business.

The City provides a wide range of programs and services to meet the diverse needs of its many residents and visitors. Under the direction of Mayor Thomas M. Menino, the City is also aggressively pursuing new economic opportunities to ensure Boston will emerge as a global leader in the twenty-first century.

Boston's Role in the Regional Economy

The City of Boston is the 20th largest city in the United States. The U.S. Bureau of the Census reported Boston's population as 574,283 in 1990 and as 589,141 in 2000. Boston is the center of the 7th largest Consolidated Metropolitan Statistical Area (CMSA) in the nation. The Boston CMSA had a total population of 5.8 million in 2000.

In addition to having one of the largest concentrations of population, Boston also ranks among the highest in concentration of employment and income in the U.S. In 2001, Boston supplied 683,584 jobs, or approximately one out of every six jobs in Massachusetts or one out of every thirteen

jobs in New England. Boston provides employment opportunities for many people who live outside of the City. Boston-based jobs in 2001 numbered nearly two and one-half times our employed resident population. The City had 9.3% of the state's population in 2000, but measured in terms of jobs, Boston's economy accounted for approximately 17% of the Massachusetts economy in 2001.

In terms of income, Suffolk county, which is comprised of the City of Boston and the towns of Chelsea, Revere, and Winthrop, ranked 37th in per capita personal income among over three thousand counties in the U.S. in 2000. Suffolk County was the 75th largest county in the United States by population in mid-2001.

The attributes that make Boston such a great city in which to conduct business also make it a great destination for tourists. According to the Greater Boston Convention and Visitors Bureau, an estimated 12.6 million people visited Boston in 2001, down slightly from 13.5 million in 2000. While the events of September 11th and a national recession have recently reduced visitors to Boston and other tourism and business centers, the City hopes and expects to return to this level of activity in the near future.

Boston is an attractive destination for conventions, meetings, and gate shows. Currently, Boston has three sites for small and medium size conventions: the John B. Hynes Veterans Memorial Convention Center, the World Trade Center, and the Bayside Exposition Center. A fourth convention site, which will be able to accommodate larger conventions, is currently under construction.

The new Boston Convention and Exhibition Center will be located on a 60-acre site in South Boston. The facility will contain more than 500,000 square feet of contiguous exhibition space, as well as ballrooms, meeting rooms, banquet halls and

lecture halls. Construction of the facility is on schedule to be substantially completed in the spring of 2004. The convention center is funded by a combination of City and Commonwealth revenue sources. Construction of this facility along with nearby new hotel projects in the City will give a significant boost to the local economy and help to position Boston as a world-class convention city of the future.

With high average occupancy and room rates, and with the new Boston Convention and Exhibition Center on the horizon, Boston is still attracting new hotel construction. Seven new hotels representing 1,186 new rooms were under construction as of July 2002. Thirteen other hotel projects representing a total of 5,173 rooms have requested approval from the Boston Redevelopment Authority.

Boston's Changing Economy

The nature of Boston's economic base has changed dramatically over the past three decades. In 1970, manufacturing and trade jobs accounted for 33% of

the total economy, while financial and service sector jobs totaled 38%. In 2000, manufacturing and trade jobs accounted for only 16.1% of the total economy while financial and service sector jobs totaled 61.8%. These trends mirror a national movement from an industrial-based economy to a service-based economy.

The City's resident workforce is undergoing a transformation as well. Of the 266,505 people working in Boston in 1970, 45% held blue-collar jobs and 55% held white-collar jobs. In 2000, of 285,859 Boston resident workers, those holding blue-collar jobs fell to 31%, and those employed in white-collar occupations rose to 69%. The majority of these white-collar jobs are within finance, health care, education, and other broad-based service industries. (Table 1.)

The changing needs of a service and information-based economy have increased the demand for a better educated and more highly skilled workforce. In 2000, 79% of the adults in Boston had completed high school, compared to 54% in 1970. A full 36% of adults in Boston had completed

Key Indicators of Boston's Economy

		1970	1980	1990	Recent
Population	Total Population	641,071	562,994	574,283	589,141 ('00)
	% Minority Population	18%	30%	37%	50.5% ('00)
Income	Median Household Income	\$7,935	\$12,530	\$29,180	\$39,629 ('00)
Education	% High School Graduate	34%	35%	27%	24% ('00)
	% Some College Completed	9%	13%	19%	19% ('00)
	% College Graduate	10%	20%	30%	36% ('00)
Employment	Unemployment Rate (resident)	12.8% ('75)	7.8% ('83)	8.6% ('91)	5.2% (12/02)
	Number of Jobs	576,125	572,078	622,433	683,584 ('01)
	% Blue Collar Jobs	45%	40%	33%	31% ('00)
	% White Collar Jobs	55%	60%	67%	69% ('00)
	% Manufacturing Jobs	11%	9%	5%	4% ('00)
	% Trade Jobs	22%	16%	13%	12% ('00)
	% Finance Jobs	13%	13%	15%	15% ('00)
	% Service Jobs	25%	36%	42%	46% ('00)
Real Estate Housing	Office Market Vacancy Rate	2%	1%	15%	9.7% (4Q'02)
	Median House Price	na	\$71,700	\$174,100	\$285,000 (2Q'02)
	Housing Units	232,400	241,300	249,791	250,863 ('00)
	% Vacant Units	6%	10%	9%	1.0% ('00)
	Condominium Units	na	4,500	33,000	
	% Condominium Units	na	2%	13%	
	Rental Vacancy (Boston Metro Area)	na	na	6%	3.0% ('01)

Sources:

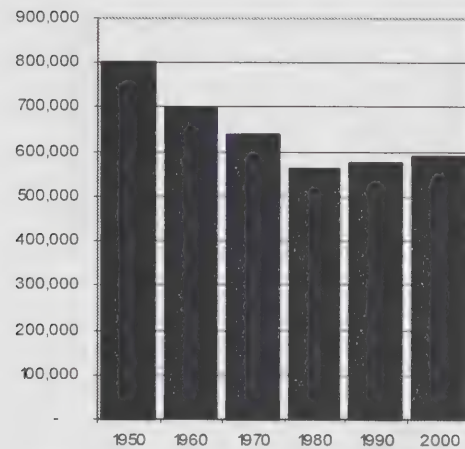
Boston Redevelopment Authority, Federal Reserve Bank of Boston, U.S. Census Bureau, Massachusetts Division of Employment and Training.

Table 1

college in 2000, compared to only 10% in 1970.

Boston's Changing Population

In a thirty-year span, Boston's population declined from 801,444 in 1950 to 562,994, or by 30%, in 1980. This decline can largely be attributed to families with children fleeing to the suburbs for perceived better schools and less crime. Since 1980, however, the City's population has stabilized. The 2000 U.S. Census records the City's population at 589,141, representing a 2.6% increase over the



Boston's Population
1950 to 2000 Census

Figure 1

1990 population and a 4.6% increase over 1980.

A wide range of ethnic backgrounds and countries of origin can be found in Boston's population. The recent census results confirm that people of color now make up the majority of Boston's population for the first time in its' history. Boston's rich cultural heritage is also reflected in the diversity of its neighborhoods. Because the Mayor is aware of the fact that many of the people who move to Boston each year come from different cultural backgrounds and have a first language other than English, he has created the Office of New Bostonians. The mission of this office is to strengthen the ability of residents from diverse cultural and linguistic communities to play an active role in the economic, civic, social, and cultural life of the City of Boston.

The Role of Higher Education, Health Care, and Financial Services

Higher education, health care, and financial services play a major role in the Boston economy. An examination of Boston's 36 largest private employers shows 27 are involved in these growing sectors.

Many of the nation's finest research and teaching hospitals are located in Boston, including Massachusetts General Hospital, Brigham and Women's Hospital, Beth Israel/Deaconess Hospital, Boston Medical Center, New England Medical Center and Children's Hospital. There are a total of 22 inpatient hospitals in the City. The City is also home to the medical and dental schools of Harvard University, Tufts University and Boston University, as well as numerous community-based health centers. In 2001, there were an estimated 97,000 people employed in health services in the City.

Boston also hosts 36 institutions of higher education. Included among the City's universities are some of the finest educational institutions in the country, including Boston College, Boston University, and Northeastern University.

These institutions of higher education have a major impact on the City's economy. Boston colleges and universities enrolled approximately 135,125 students in the fall of 1999. Because many of these students remain in Boston after graduation, Boston's educational institutions are a major source of new highly skilled professionals for the City's work force. Boston colleges and universities add to the economy in other ways as well. From 1991 through 1998, over \$300 million of large construction projects at educational institutions in Boston were completed.

Many of the country's leading financial services firms are located in Boston, including Fidelity Investments, John Hancock Mutual Life Insurance Company, Putnam Investments, and State Street Bank & Trust Company. The City also has the distinction of being the birthplace of the mutual fund industry. In 2001, there were an estimated 111,329 people employed in financial services, insurance, and real estate in the City.

Transportation

A key to Boston's economic health is the City's ability to transport residents, workers, and visitors efficiently and safely to their intended destinations. Boston's public transportation system reaches into all of the City's neighborhoods and is linked to the commuter rail system, connecting millions of people to the central City.

The roadway system provides commuters access to Boston through surface arteries and three limited access interstate highways that connect Boston to the national highway system. Interstate 90, the Massachusetts Turnpike, just recently extended as part of the Central Artery Project, leads westward from Logan Airport through downtown Boston to the New York State border. Interstate 95, the East Coast's principal north-south highway, connects Boston to New Hampshire and Maine to the north and New York City and Washington D.C. to the south. Interstate 93, another north-south highway, extends from just south of the City to New Hampshire. Major industrial parks and high-technology companies line these transportation arteries.

In 2002, Boston's Logan International Airport was the most active airport in New England, the 19th most active airport in the United States, and the 32nd most active airport in the world. In 2002, 22.7 million domestic and international passengers were served at Logan airport. Logan Airport is also very important to the economy as a center for processing air cargo. In 2001, Logan ranked 18th in the nation and 41st in the world in total air cargo volume.

The Port of Boston provides New England businesses with excellent deep-water port facilities and access to world ports, as well as feeder service to Halifax, Nova Scotia, and New York. In 2001, the Port of Boston ranked as the 28th largest American seaport by total tonnage shipped. The Port of Boston has also become a major cruise ship port, hosting 248,790 cruise ship passengers in FY02 – up an astounding 34% over FY01.

Economic Outlook

Currently, the City is living with the consequences of a lengthening economic downturn throughout the nation, region, and state. As with any economic entity, the City of Boston has seen good

times and bad. During the 1960s, the economy thrived and unemployment was consistently below 6%. In the 1970s, Boston experienced the same pain felt across the country as a national recession took hold. The 1980s produced the "Massachusetts Miracle" and launched our Governor's bid for the presidency. The early 1990s gave way to recession again with unemployment over 8% and a collapsing real estate market. The late nineties expansion invited low unemployment, commercial development and increased home values throughout the City.

Since 1992, construction activity in the City stabilized, and has only very recently begun to fall. In fiscal 2002, building permit revenues indicated a potential construction activity level of \$2.24 billion in the City, down about 31% from fiscal 2001.

Across the nation the housing market remained strong throughout the year and recession, and Boston is no exception. The sale of detached single-family homes in the Greater Boston area grew 15.6% to over 11,000 in 2002. Condominium sales grew by 24.7% to nearly 6,500 as well. The sale prices of homes in the Greater Boston area softened somewhat in 2002, but are still historically high. The 2002 annual average sale price of detached single-family homes grew 4.8% over 2001 to \$498,180, and average condominium prices grew a strong 12.4% to \$322,387, according to the Massachusetts Association of Realtors. According to the Federal Reserve Bank of Boston (FRBB), the median sales price of an existing home in the Boston metropolitan area increased 10.2% to \$386,300 in the fourth quarter of 2002 over fourth quarter 2001, and 17.2% over fourth quarter 2000. This is down somewhat from the \$415,800 peak in the third quarter 2002. Since fourth quarter 1997 the median sales price has increased an astounding 97.2% in the Boston metropolitan area.

The FRBB Repeat-Sales Home Price Index shows an increase of 10.3% in the Boston metropolitan area for the fourth quarter 2002 over the same quarter 2001 and 22.7% over fourth quarter 2000. Growth from third to fourth quarter 2002 was 1.9%. The last negative quarterly growth seen in this index was third to fourth quarter 1994. With average quarterly growth of 3.1% since second to

third quarter 1999, price appreciation has indeed been rapid. With house price appreciation slowing in recent quarters, the risks of Boston developing a speculative bubble in real estate are becoming increasingly lessened as home price appreciation finally begins to pace growth in incomes.

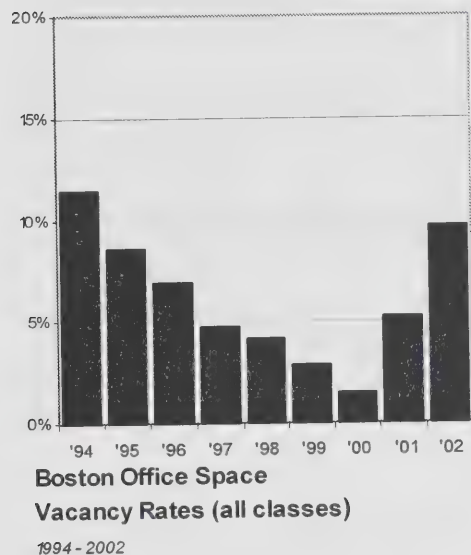


Figure 2

Apartment rents have softened some as vacancy rates have risen with higher home ownership rates and unemployment, but the market is still one of the tightest in the nation with median monthly advertised asking rents around \$1,600 for a two bedroom apartment in fiscal 2001. The apartment vacancy rate has recently begun to rise over its 3.0% low in 2000.

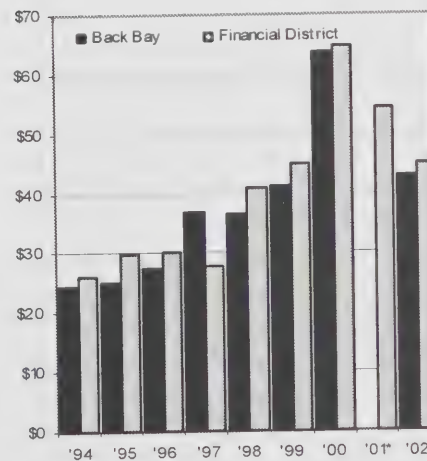
The continued improvement in the variables that have influenced investors to go forward with commercial development projects may have finally peaked last year. Financing for commercial projects has become harder to obtain as commercial rental rates that had been very high, and vacancy rates that had been very low, have both softened.

Demand for office space in Boston fell further in 2002 with the overall office vacancy rate at 9.7%, up from 5.2% in December 2001, and up from 1.5% in 2000 (Figure 2.). Because office vacancy rates have risen, rents have declined. The average asking rent per square foot for office space in the Boston central business district at year-end 2002

was \$45.01, down 17% from Financial District asking rents last year (Figure 3.). Despite a fairly high vacancy rate, Boston remains one of the top office markets in the country with over 65 million square feet of office space.

With travel to Boston so popular in recent years, Boston's hotel market was one of the strongest in the nation. During 2000, Boston hotels had an average occupancy rate of nearly 80%, up from 65% in 1991. With high occupancy levels, prices for rooms had risen steadily. During 2000, the average daily room rate at Boston hotels was around \$200, as compared to \$109.29 in 1991. September 11th and national recession have brought challenges to the hotel market with occupancy rates falling to about 72% as of November, 2001 and average daily room rates falling to around \$183. Since then occupancy has gained, and as of November 2002 stood at 74%, but average daily room rates have continued to fall to \$167.

Although the local commercial real estate tourism markets have experienced downward trends recently, developers are still constructing or planning numerous office and hotel projects in the City with only a few delays.



Boston Office Space Asking Rents 1994 - 2002 ('01 downtown only)

Figure 3

Economic Development

Recent trends indicate that Boston's economy had been growing steadily prior to the 2001-2002 recession, and will return to growth with the nation and state. With the election of Thomas M.

Menino as the Mayor of Boston, a new cabinet form of government was established to create greater efficiency and improve the delivery of City services. Within this new structure, a Chief Economic Development Officer (CEDO) cabinet position was created. The CEDO is charged with developing a successful strategy for promoting the economic viability of the City. Two of the major agencies responsible for economic development under this cabinet, the Boston Redevelopment Authority and the Economic Development and Industrial Corporation, have consolidated services to allow for a more coordinated, comprehensive approach to planning and development.

Current public sector projects impacting the Boston economy include the Central Artery/Third Harbor Tunnel project and the Boston Convention and Exhibition Center. The federal government primarily funds the first project with the Commonwealth covering the rest of the cost, and the second project is a City/State combined effort. The Central Artery/Third Harbor Tunnel project is the largest public works project in the country, at a recently estimated cost of \$14.7 billion. It is estimated that this project will have employed 15,000 workers during the peak years of construction (1998 to 2001).

Several portions of the Central Artery/Third Harbor Tunnel project have recently opened for public use. In December 2002 the extension of I-90, or the Massachusetts Turnpike, under Fort Point Channel to Logan Airport opened and just recently the I-93 North side of the new artery opened as well. When fully completed, the new depressed Central Artery and Ted Williams Tunnel are expected to alleviate traffic congestion throughout the City, make Logan Airport and East Boston more accessible, and support new development in South Boston.

The development of the Boston Convention and Exhibition Center (BCEC), to include over 500,000 square feet of contiguous exhibition space on a 60-acre site in South Boston, is a joint effort of the City, the Commonwealth, the Boston Redevelopment Authority (BRA) and the Massachusetts Convention Center Authority (MCCA). The BRA, in charge of site acquisition and preparation, has completed the acquisition

and has nearly completed relocation of the tenants, as well as demolition and environmental remediation.

Groundbreaking by the MCCA for construction of the BCEC Project took place in the spring of 2000. The BCEC Project is expected to be substantially completed by Spring 2004, with initial convention business beginning several months thereafter.

State legislation was passed in 2000 in support of construction of a new Fenway Park adjacent to the existing Fenway Park --- as a city/state/private collaboration. Subsequent to its passage, a controlling interest in the Red Sox was offered for sale. The Red Sox temporarily set aside the process of obtaining approvals required by the legislation until after completion of the sale. The new owners have focused on improvements at the existing Fenway Park, and have not announced any plans for a new stadium.

There are many other economic development projects proceeding in Boston. These include plans to develop the East Boston and South Boston waterfront districts, further enhancements to Boston's neighborhoods through the Empowerment Zone and Main Streets initiatives, and continuing development of retail and business districts.

Improvements are planned to parks and neighborhoods to connect residents to the waterfront areas. In South Boston, in addition to the new convention center, there are also plans for hotel, retail, and residential housing development to attract new workers and visitors to the area. Partnerships have and will continue to play an important role in revitalizing Boston's neighborhoods. In January 1999, the City of Boston was designated an Empowerment Zone community by the U.S. Department of Housing and Urban Development. The ten-year Empowerment Zone designation brings with it \$130 million in tax-exempt bonding authority and \$100 million in grants to finance sweeping revitalization and job creation programs.

There are currently 21 Boston business districts participating in the Main Streets Program, a partnership between the City and the National

Trust for Historic Preservation. As of the end of December 2002, this program has created 444 net new businesses and 3,057 net new jobs, improved the marketability and business strategy of business districts, and preserved the character of surrounding residential areas.

Another sign of solid investment in the retail market of the City are the projects underway in the neighborhoods to build new supermarkets and expand others. Other retail projects are completed or partially completed and include retail and theater space at Millennium Place on Lower Washington Street and more retail and theater space at the Landmark Sears Building in the Fenway. Home Depot opened a large store at the South Bay Center Mall, the first inner-city store for the company, and an inner-city shopping mall in Grove Hall has recently opened as part of a major Blue Hill Avenue redevelopment.

With a diverse economic base and educated work force, strong tourism lure and a ready hotel and office market, a new convention center on the horizon, and safe neighborhoods, Boston is a world-class city able to withstand economic challenges and continue building for the future.



Budget Organization and Glossary

Budget Organization and Glossary of Terms

Introduction

This Chapter is a guide to the organization of Boston city government and the FY04 Operating Budget.

The City of Boston, incorporated as a town in 1630 and as a city in 1822, now exists under Chapter 486 of the Acts of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth which, as amended, constitute the City's charter. The chief executive officer of the City is the Mayor. Reelected in November 2001, Mayor Thomas M. Menino is serving a four-year term ending in January 2005. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The portion of the City budget covering appropriations for all departments and operations of the City, except the School Department, and a portion of the operations of Suffolk County, is prepared under the direction of the Mayor.

The legislative body of the City is the Boston City Council, which consists of thirteen members serving two-year terms, of whom four are elected at-large and nine are elected from geographic districts. The City Council may enact ordinances and adopt orders that the Mayor may either approve or veto. Ordinances and orders, except for orders for the borrowing or appropriation of money, may be enacted by the City Council over the Mayor's veto by a two-thirds vote. The City Council may reject or reduce a budget submitted to it by the Mayor, but may not increase it.

Organization of City Government: The Mayor's Cabinet

Upon election, Mayor Menino implemented a new cabinet structure in the executive branch of city government. The cabinet structure delineates the major functional responsibilities of city government to improve the conduct of executive and administrative business of the City and to

eliminate duplication and waste. The Cabinet presently consists of fourteen cabinet members: Chief of Staff, Chief Operating Officer, Chief Financial Officer, Chief Economic Development Officer, Chief of Education, Chief of Human Services, Chief of Basic Services, Chief of Environmental Services, the two Chiefs of Public Safety, Chief of Public Housing, Chief of Public Health, the Corporation Counsel (the City's chief legal officer), and the Chief of Housing and Neighborhood Development.

The structure of the Mayor's cabinet is illustrated in the citywide organizational chart displayed on the next page. A description of the members of the Mayor's cabinet, the City departments for which they have authority, and their individual responsibilities, follows.

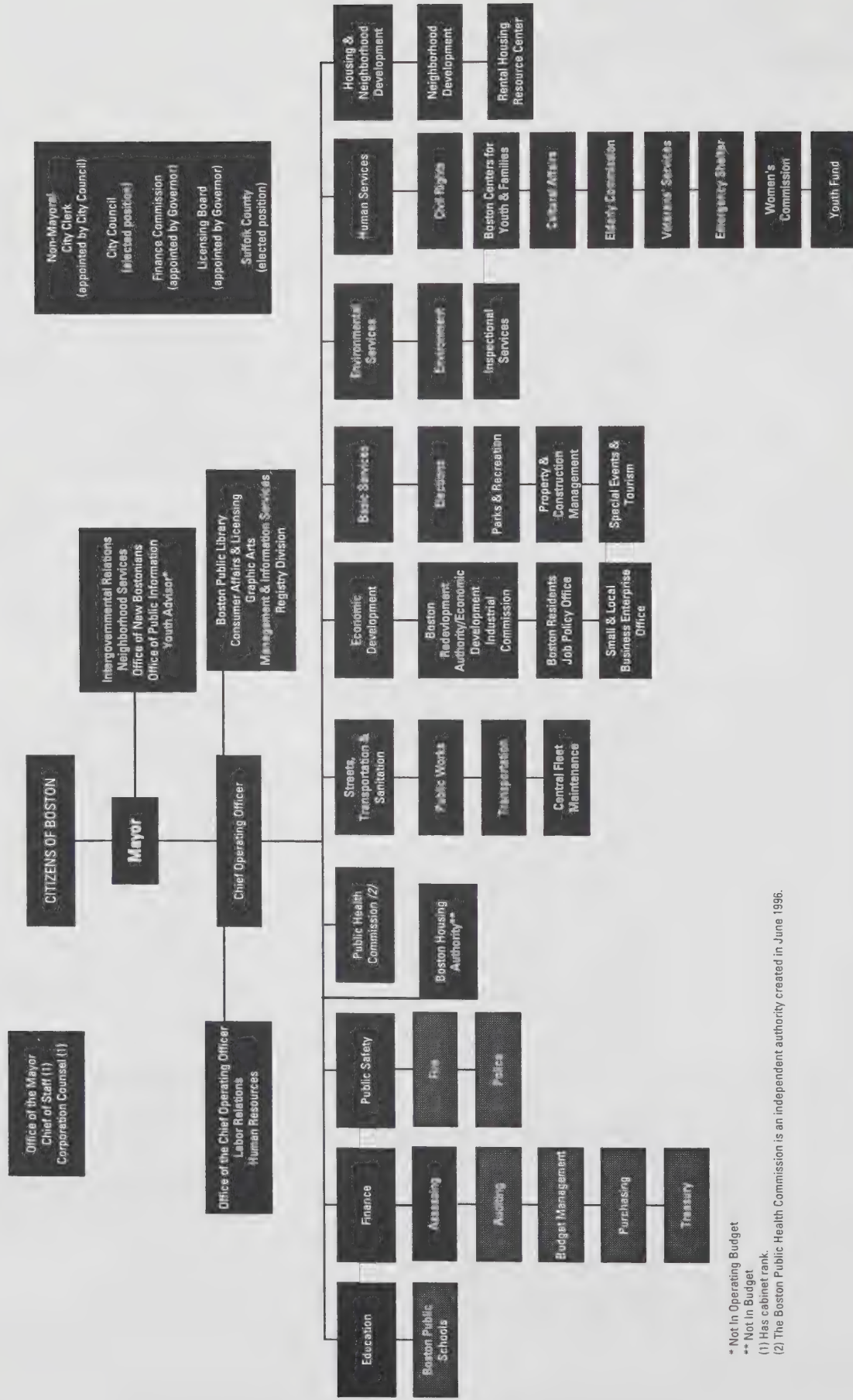
Chief Operating Officer

The COO is the key individual responsible for the daily administration of the entire city government and directly oversees Management Information Systems, Human Resources (including Workers' Compensation program), Health Insurance, Workers' Compensation Fund, Unemployment Compensation, Graphic Arts, Consumer Affairs & Licensing, the Boston Public Library, Registry Division and Labor Relations. The COO reports directly to the Mayor and is responsible for ensuring satisfactory performance of city managers.

Chief Financial Officer

The Chief Financial Officer (CFO), who also serves as the Collector-Treasurer, oversees all city financial matters, including the functions of the Treasury, Assessing, Auditing, and Purchasing departments, the Office of Budget Management

ORGANIZATION OF CITY GOVERNMENT



* Not In Operating Budget

** Not In Budget

(1) Has cabinet rank.

(2) The Boston Public Health Commission is an independent authority created in June 1996.

(OBM), Pensions & Annuities. The Retirement Board, an independent board under Chapter 306 of the Acts of 1996, now has its expenses funded through investment earnings, but remains part of the Finance Cabinet. The City's Collector-Treasurer is responsible for supervision of the City's Treasury Department, revenue collections due the City of Boston and Suffolk County, management of city borrowings, and city payments, including amounts due on borrowings by the City in the form of either temporary or permanent debt.

Chief Economic Development Officer

The Chief Economic Development Officer is accountable for the planning and development functions of the City. The Director of the Boston Redevelopment Authority (BRA) serves as the Cabinet Chief. The Economic Development Cabinet is composed of the Boston Redevelopment Authority/Economic Development and Industrial Corporation (BRA/EDIC), the Office of Small and Local Business and the Boston Residents Jobs Policy Office.

Chief of Education

The Superintendent of the Boston Public Schools serves on the Mayor's cabinet. Among the Cabinet responsibilities of the Superintendent is the development of a plan for schools and other city and non-city agencies to develop cooperative programs guaranteeing the best possible educational resources for Boston's children. The Superintendent is appointed by the Boston School Committee and serves as the Chief Executive Officer of the Boston Public Schools.

Chief of Human Services

The Human Services Cabinet is responsible for providing social services for Boston's citizens. This cabinet includes the Office of Cultural Affairs, Boston Centers for Youth & Families, the Elderly Commission, the Emergency Shelter Commission, the Women's Commission, the Veteran's Services Department, the Youth Fund, and the Office of Civil Rights, which is comprised of the Fair Housing Commission, the Commission for Persons with Disabilities, and the Human Rights Commission.

Chief of Basic Services

The Basic Services Cabinet is composed of the Parks and Recreation Department, Property & Construction Management, the Election Department, and Special Events & Tourism.

Chief of Environmental Services

The Environmental Services Cabinet is made up of the Environment Department and the Inspectional Services Department. Other programs in the Cabinet include the Recycling Program of the Public Works Department, the Open Space Planning and Olmsted System Revitalization programs of the Parks and Recreation Department. The Chief of Environmental Services oversees the City's relationships with the Central Artery/Third Harbor Tunnel project, the federal Environmental Protection Agency, the state Executive Office of Environmental Affairs, the Metropolitan Area Planning Commission, and the Massachusetts Bay Transportation Authority (MBTA).

Streets, Transportation & Sanitation

The Streets, Transportation & Sanitation Cabinet includes the Public Works Department, the Transportation Department, Central Fleet Maintenance and Snow Removal. The newly formed cabinet will facilitate the consolidation of the functional overlap between the Public Works and Transportation Departments.

Chiefs of Public Safety

The Public Safety Cabinet includes the Boston Police Department and Boston Fire Department. The Police Commissioner and Fire Commissioner both serve on the Mayor's cabinet.

Executive Director of the Boston Public Health Commission

The executive director of the Boston Public Health Commission (BPHC) oversees public health delivery in the City by hospitals, health centers and community organizations, as well as providing the City's emergency medical services.

Administrator of the Boston Housing Authority

The Administrator of the Boston Housing Authority (BHA) serves on the Mayor's cabinet as the Chief of Public Housing. The BHA is an

independent authority overseeing public housing developments and senior housing locations throughout the City.

Chief of Housing and Neighborhood Development

The Housing and Neighborhood Development Cabinet is composed of two departments, the Department of Neighborhood Development and the Rental Housing Resource Center. These departments work together to build strong neighborhoods, develop and preserve local businesses, and improve housing stock. In addition, these departments assist people seeking housing and assist tenants with problem resolution and mediation with landlords.

Corporation Counsel

The Corporation Counsel has supervisory authority over all City attorneys and legal affairs and represents the City of Boston and Suffolk County in litigation. The Law Department provides an array of legal services, including formal and informal opinions and advice to the Mayor, the City Council, the Boston School Committee, and other officials in matters relating to their official duties. The department also represents the same parties in litigation, reviews all city and county contracts, pursues claims on behalf of the City through affirmative litigation, and initiates foreclosure proceedings on tax delinquent property.

Mayor's Chief of Staff

The Mayor's Chief of Staff oversees the day-to-day operations of the Mayor's Office, and responds to requests and critical issues efficiently and effectively. In addition, the Chief of Staff keeps an open, direct line of communication between the Mayor and Boston's communities in pursuing resident concerns. The Mayor's Office includes the Office of the Mayor, Neighborhood Services, Public Information, Intergovernmental Relations, and the Office of New Bostonians.

An All-Funds Budget

FY04 is the sixth year that the City of Boston is presenting a fully integrated budget, including capital, operating, and external funds. Previous to FY99, the City presented separate capital and

operating budgets. The capital and operating budgets are now incorporated to show the full level of funds available to departments to fulfill their missions.

The operating budget maintains the day-to-day operations for departments to provide goods and services whereas the capital budget reflects long-term needs and planning for infrastructure development and repairs. The capital budget funds new construction or renovations to existing city-owned facilities (for example, police and fire stations and schools), infrastructure improvements (for example, roads, sidewalks, and lights), and major equipment purchases such as fire-fighting apparatus. The external funds budget describes the projects and programs that the departments will be undertaking in the next fiscal year, which are financed with funding received from the state, federal or other non-general fund sources.

Organization of the Budget

The City of Boston's Program Budget provides a wealth of information related to City services and their associated costs. The Operating and Capital Budgets present recommended resource allocations in terms of personnel, facilities, goods, and services. The budget document also describes the kinds of services provided by city and county departments as well as the levels of services that will be achieved in FY04.

The Operating and Capital Budget Document: Organization of the Volumes

Volume I provides a citywide review of information on the FY04 budget and the context in which it is prepared. Sections include:

- Executive Summary,
- Summary Budget,
- City Council Orders,
- Revenue Estimates and Analysis,
- Innovations in Education,
- FY04 Budget and Performance Goals,
- Financial Management,
- Capital Planning,
- Statutes and Ordinances,
- Boston's People and Economy, and
- Budget Organization and Glossary.

In Volumes II and III, cabinet and departmental budgets are presented, with the departmental budgets organized by cabinet. The cabinet presentation includes cabinet mission and initiatives, followed by a table displaying total operating, external and capital budgets beginning with FY01 actual results through the FY04 budgets.

The Departmental Operating Budgets

Activities and services of the City are grouped into programs for budgeting and management purposes. The operating budget for each department is presented on a program-by-program basis.

A "program" is defined as:

An organized group of activities, and the resources to carry them out, that is directed toward attaining one or more related objectives.

For the purposes of program budgeting and program evaluation, a program can consist of direct services to the public and neighborhoods of the City (police patrol or voter registration), or traditional city staff functions (administrative services or engineering and design).

Some city activities may not be defined as separate programs even though they may be self-contained operations. For example, a fire station is not a separate program although it is a cost center, for accounting purposes, within the Fire Department's Fire Suppression Program.

While these program budgets serve as the basic building blocks of the budget, there are three additional organizational levels above the program level in the budget. The basic budget presentation is modified slightly depending on the structure of a department. The three levels are:

- The Division Level for budgeted units within some departments.
- The Department Level, which includes departments, commissions, and other offices.
- The Cabinet Level, which includes functionally related departments.

Description of Organization and Definition of Categories

This section outlines the structure of information reported within each department and program in the budget. It also defines what is included in the

mission statements, services, performance objectives, service indicators, capital expenses, and external funds for FY04.

Department/Division Level

Mission statement: The mission statement is a fundamental statement of purpose.

Performance Objectives: These objectives reflect stated goals for which the division or department will be held accountable in FY04 and measured on a monthly basis.

Description: This text furnishes a general overview of the department and its responsibilities and lists examples of major services provided.

Authorizing Statutes: Statutes and ordinances that create departments as well as endow them with powers.

Operating Budget: The operating budget presentation includes a table displaying total operating and external budgets by program beginning with FY00 actual expenses through the FY04 budget.

Program Level

Description: This section furnishes a general overview of the program and its responsibilities and lists examples of major services provided. Added context is often displayed on the demand for services or to illustrate the scope of the department's responsibilities in more detail.

Program Performance Objectives: Each program identifies the FY04 objectives by which the department will be measured.

Program Outcomes: The outcomes illustrate the intended achievement levels for program objectives in quantifiable terms.

Selected Service Indicators: The selected service indicators provide brief comparisons of personnel, funding, and measures of how well the program has performed for FY01 and FY02. It also includes FY03 and FY04 projected service levels, budgeted staff, and funding levels. Service levels may measure workload, service quality, inputs, outputs, efficiency, or productivity.

In cases where the service level depends on an external factor (for example, the number of tax abatements or building permits applied for), the promised service level reflects the workload that

the program is equipped to handle efficiently and effectively.

Programs report levels of service outputs and promised outcome achievements on a monthly basis.

Financial Data

The financial data identifies the major groups and expenditure account codes (for example, Personal Services/Overtime, Supplies and Materials/Office Supplies), the historical expenditures, and the proposed appropriations in these groups and expenditure account codes.

Two financial sheets are provided on the FY04 Operating Budget: Department History by Expenditure Account Code and Department Personnel data.

Department History by Expenditure Account Code:

The expenditure account codes are listed within six expenditure groups. Dollar amounts are shown for:

- FY01 actual expenditure,
- FY02 actual expenditure,
- FY03 appropriation,
- FY04 appropriation, and
- The difference between the FY03 appropriation and the FY04 appropriation.

Department Personnel Data

The personnel data show funding for permanent positions, including existing and proposed positions. All permanent positions are listed by salary grade within the department or division. The total salary request is listed for these positions.

For each position shown, the following information is provided:

Title: The civil service/personnel system job title of the position.

Grade: The code for the salary grade of the position.

Position and Salary Requirement: These columns are used to show the permanent positions that a department may fill based on available funds and

the total funding provided for that title for the fiscal year.

Total Dollars: The total dollars for the permanent personnel, shown at the bottom right of the personnel sheet, reflects the amount of funding required to support personnel prior to adjustments. As applicable, this figure is then adjusted by differential payments, other payments, chargebacks, and salary savings.

Differential Payments: These payments are for employees who are either in intermittent job titles or who are entitled to extra additional payments based on shift (for example, night shifts). This figure is added to the salary requirements.

Other: These figures cover other payments such as sick leave and vacation buyback, and other similar distributions.

Chargebacks: These figures are payroll costs to be charged to another fund or appropriation.

Salary Savings: This figure reflects savings due to employee turnover. The amount is estimated based on historical experience and subtracted from the total salary requirements.

External Funds

The financial data identify the major groups and object codes of external funds expenditures (for example, Personal Services/Overtime, Supplies and Materials/Office Supplies), the historical expenditures, and the proposed appropriations in these groups and objects. The personnel data show permanent positions, including existing and proposed positions funded with external funds. All permanent positions are listed by salary grade within the department or division. The total salary request is listed for these positions. Department also lists program services and projects financed by external funds. Each profile includes a description of the program or project, the source of funding, and the geographic area or citizens benefiting from the program or project.

Capital Budget

The capital section provides an overview of projects and major initiatives for departments charged with managing facilities and major equipment assets. The dollar amounts are shown for:

- FY01 actual capital expenditures,
- FY02 actual capital expenditures,
- FY03 projected capital expenditures,
- FY04 proposed capital expenditures

The next section reviews departmental capital project profiles, including descriptions of each project scope, the department managing the project, and the status and location of each project. A table summarizes the total capital dollars authorized for project expenditure for not only FY04, but also for future years, as well as whether the source is city authorization or other funding such as federal and state infrastructure grants or trust funds. A listing of actual and planned capital expenditures in comparison to authorized dollars is beneath this table.

Glossary of Terms

Account: A classification of appropriation by expenditure account code.

Account Number: The number by which the Auditor categorizes an appropriation. For budget purposes, also known as appropriation code.

Accrual Basis: The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

Allotment: The amount that can be expended quarterly for personnel as submitted to the City Auditor at the beginning of each fiscal year.

Appropriation: The legal authorization to expend funds during a specific period, usually one fiscal year. In Boston, the City Council is the appropriating authority.

Authorization: The legal consent to expend funds.

Baseline Budget: A budget that describes the funding required for maintaining current levels of service or activity.

Bond: An interest-bearing promise to pay, with a specific maturity.

Bonds Authorized and Unissued: The portion of approved bond authorizations or loan orders that have not yet been borrowed for or issued as bonds. Bond authorization available for future bond issues within a City's debt service plan.

Budget: A formal estimate of expenditures and revenues for a defined period, usually for one year.

Budget Amendment: A change from originally budgeted quotas; the forms filed by departments with the Human Resources Department and the Office of Budget Management to justify these changes.

Capital Budget: A plan for capital expenditures for projects to be included during the first year of the capital program also known as a capital spending plan.

Capital Plan: A multi-year plan of proposed outlays for acquiring long-term assets and the means for financing those acquisitions. Usually, financing is by long-term debt.

Capital Improvement: An expenditure that adds to the useful life of the City's fixed assets.

Capital Improvement Program: A multi-year plan for capital expenditures to be incurred each year over a fixed period of years to meet capital needs.

Cash basis: A basis of accounting under which transactions are recognized only when cash changes hands.

Chapter 90 Funds: A state-funded program for payments to cities and towns for 100 percent of the costs of construction, reconstruction, and improvements to public ways.

Chargeback: A method of assessing departments for costs incurred by them for which they are not billed directly. Charges for telephone, postage, and printing are examples. Also, departmental expenditures that can be paid for with external or capital funds.

Cherry Sheet: A cherry-colored form showing all Commonwealth and county charges, distributions and reimbursements to a city or town as certified by the state Director of the Bureau of Accounts.

Collective Bargaining: The process of negotiations between the City administration and bargaining units (unions) regarding the salary and fringe benefits of city employees.

Commission: An appointed policy setting body.

Community Development Block Grant (CDBG): A federal entitlement program that provides community development funds based on a formula.

Computer-Aided-Dispatch (CAD) System: A network of computers that facilitates the dispatching of emergency Police, Fire, or Emergency Medical Service personnel.

Credit Balance: See departmental deficit.

Credit Rating: A formal evaluation of credit history and capability of repaying obligations. The bond ratings assigned by Moodys Investors Service and Standard & Poors Corporation are forms of credit rating.

Credit Transfer: The transfer of appropriations from one expenditure account code to another within a department; the form used to effect such a change.

Debit Transfer: Moving actual expenditures from one expenditure account code to another within or between departments; the form used for such moves.

Debt Limit: The maximum amount of debt that a governmental unit may incur under constitutional, statutory, or charter requirements. The limitation is usually a percentage of assessed valuation and may be fixed upon either gross or net debt.

Debt Outstanding: The general obligation bonds that have been sold to cover the costs of the City's capital outlay expenditures from bond funds.

Debt Service: The annual amount of money necessary to pay the interest and principal on outstanding debt.

Department: A major service-providing entity of city government.

Departmental Deficit: A condition that exists when departmental expenditures exceed departmental appropriations; also refers to the over-expended amount and credit balance.

Departmental Income: Income generated by a specific city department, usually as a result of user revenues applied for services rendered. Parking meter charges, building permit fees, and traffic fines are examples of departmental income.

Division: A budgeted sub-unit of a department.

Encumbrance: Funds set aside from an appropriation to pay a known future liability.

Excise: A tax applying to a specific industry or good. The jet fuel tax and the hotel/motel occupancy tax are examples of excises.

Expenditure Account Code: An expenditure classification according to the type of item purchased or service obtained, for example,

emergency employees, communications, food supplies, and automotive equipment.

Expenditure: An actual payment for goods or services received.

External Fund: Money that is not generated from city sources, but is received by an agency, examples is grants or trusts.

Fiscal Year: The twelve-month financial period used by the City, which begins July 1 and ends June 30 of the following calendar year. The City's fiscal year is numbered according to the year in which it ends.

Fixed Debt: Long-term obligations other than bonds, such as judgments, mortgages, and long-term serial notes or certificates of indebtedness.

Full Faith and Credit: A pledge of the general taxing powers for the payment of governmental obligations. Bonds carrying such pledges are usually referred to as general obligation or full faith and credit bonds.

Full-time Equivalent Position: A concept used to group together part-time positions into full-time units.

Fund: An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources with all related liabilities, obligations, reserves, and equities that are segregated for specific activities or objectives. Among the fund types used by the City are General, Special Revenue, Capital Projects, Trust and Enterprise.

GAAP: Generally Accepted Accounting Principles. The basic principles of accounting and reporting applicable to state and local governments, including the use of the modified accrual or accrual basis of accounting, as appropriate, for measuring financial position and operating results. These principles must be observed to provide a basis of comparison for governmental units.

General Fund: The fund into which the general (non-earmarked) revenues of the municipality are deposited and from which money is appropriated to pay the general expenses of the municipality.

General Obligation (G.O.) Bonds: Bonds for whose payment, the full faith, and credit of the issuer has been pledged. More commonly, but not

necessarily, general obligation bonds are payable from property taxes and other general revenues.

Goal: A statement, in general terms, of a desired condition, state of affairs, or situation. Goals are long-term and not usually directly measurable without objectives. By establishing goals, the agencies can define their missions and then the methods for achieving those goals.

Grant Year: The grant accounting period designated by the requirements of a specific grant.

Headcount: The actual number of full-time or full-time equivalent employees in a department at any given time. The headcount will change from time to time as employees are hired or terminated.

Interest: Compensation paid or to be paid for the use of money, including interest payable at periodic intervals or discount at the time a loan is made.

Interest Rate: The interest payable, expressed as a percentage of the principal available for use during a specified period of time.

Line Item: See Expenditure Account Code.

Massachusetts Water Pollution Abatement Trust (MWPAT): A statewide revolving fund that commenced operations in 1990 to address necessary environmental actions outlined in the Federal Clean Water Act. This fund revolves by MWPAT issuing large pooled bond issues for various environmental construction projects and then loaning these funds to communities with twenty-year zero interest repayment schedules.

Mayoral Reallocation: A transfer of appropriations of up to \$3 million that may be authorized by the Mayor up to April 15 in a given fiscal year to relieve departmental deficits or meet unanticipated financial problems.

Mission: A general overview of the purposes and major activities of an agency or program.

Modified Accrual Basis: The accrual basis of accounting adapted to the governmental fund type, wherein only current assets and current liabilities are generally reported on fund balance sheets and the fund operating statements present financial flow information (revenues and expenditures). Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related

fund liability is incurred except for a few specific exceptions. All governmental funds and expendable trust funds are accounted for using the modified accrual basis of accounting.

Objective: See Performance Objective.

Official Statement (O.S.): The municipal equivalent of a prospectus - history, background of managers, fund objectives, a financial statement, and other pertinent data related to the city's financial condition.

Operating Budget: A legally adopted plan for anticipated expenditures for personnel, supplies, equipment and services in one fiscal year.

Outcome: A quantifiable, reportable measure of the intended performance objective; reflects the results of a program in terms of impact on the level of need or the problem being addressed.

Payments-In-Lieu-of-Taxes: Income to replace the loss of tax revenue resulting from property exempted from taxation.

Performance Measure: An indicator of achievement. Measures can be defined for identifying output, work or service quality, efficiency, effectiveness, and productivity.

Performance Objective: A statement of proposed accomplishments or attainments. Objectives are short-term and measurable.

PLOS: Promised Level of Service, the estimate of the outputs or outcomes being measured, based on the resources provided by the budget.

Principal: The face amount of a bond, exclusive of accrued interest.

Program: An organized group of activities, and the resources to carry them out that is directed toward attaining objectives.

Program Evaluation: The process of comparing actual service levels achieved with promised results; also refers to assessing, for the purpose of improving the way a program operates.

Proposition 2 1/2: A statewide tax limitation initiative petition limiting the property tax levy in cities and towns in the Commonwealth to 2 1/2 percent of the full and fair cash valuation of the taxable real and personal property in that city or town. The statute also places an annual growth cap of 2 1/2 percent on the increase in the property tax levy.

Quota: The planned number of positions that can be filled by a department, subject to the availability of funds. The quota can refer either to specific titles or to the number of personnel in the entire department. The quota of positions will change, from time to time, by means of a budget amendment. The actual number of personnel working in a department at any given time may differ from the quota.

Reimbursement Grant: A federal or state grant that is paid to the City once a project is completed and inspected for conformance to the grant contract. The City must provide the full funding for the project until the reimbursement is received.

Reserve Fund: An appropriation for contingencies.

Revenue: Income received by the City.

Salary Savings: For budget purposes, an amount that will be saved from annual turnover of personnel in any department.

Special Appropriation: An authorization to expend funds for a specific project not encompassed by normal operating categories.

Special Revenue Fund: Used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or sources for major capital projects) that are legally restricted to expenditures for specific purposes. A special revenue fund is accounted for in the same manner as a General Fund.

STAT: Statutory accounting and reporting adopted by a legislative body of a governmental entity. The method of recording and reporting actual expenditures and revenues within a plan of financial operations that establishes a basis for the control and evaluation of activities financed through the General Fund. When the budget basis and basis of accounting are different, a governmental unit usually maintains its records on a budget basis.

State Distributions: All City revenue flowing from the state. Major categories include reimbursement for loss of taxes, educational distributions and reimbursements, direct education expenditures, general government reimbursements, and other distributions.

Sub-Program: A sub-program is defined discretely, for purposes of management. Several related sub-programs may make up a larger program.

Supplementary/Supplemental Appropriation: An appropriation that is submitted to the City Council after the operating budget has been approved. Such appropriations must specify a revenue source.

Tax Exempt Bonds: Bonds exempt from federal income, state income, or state or local personal property taxes.

Third Party Payment: Medical payments, usually from an insurance carrier to a health care provider on behalf of an injured or infirm party.

Trust Funds: Funds held by the City in a fiduciary role, to be expended for the purposes specified by the donor.

Unliquidated Reserve: A fund established at year-end, used to pay for goods and services received this year, but not billed until next year.

